



Cayman Islands

**SPECIAL REPORT OF
*THE AUDITOR GENERAL***

ON

***THE STATE OF FINANCIAL ACCOUNTABILITY
REPORTING***

Cayman Islands Audit Office

April 2008

STATE OF FINANCIAL ACCOUNTABILITY REPORTING

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STATE OF FINANCIAL ACCOUNTABILITY REPORTING

Executive Summary

1.01 The Cayman Islands Government embarked on its own financial reform project in 1997 – the Financial Management Initiative (FMI). A firm of consultants was hired in mid 1998 and by mid 1999 the Government had produced a Detailed Design and Implementation Strategy. This process culminated in the Public Management and Finance Law (PMFL) that became effective for the financial year starting July 1, 2004.

1.02 The FMI set out a new method of budgeting and reporting, which had many consequences. Key among them was a new method of accounting (from cash to accrual) and much improved requirements for providing the Legislative Assembly with financial accountability information (output reporting).

1.03 Significant changes included the *requirement* for each Ministry and Portfolio of Government to provide a financial statement that details not only their assets, liabilities, revenues and expenditures but also to what extent they had completed outputs agreed with the Legislative Assembly during the budget process.

1.04 Government Statutory Authorities and Companies also had significant changes to their reporting regime. They were required to prepare financial statements within a very specific time frame and were also required to prepare semi-annual and annual reports for presentation to the Legislative Assembly.

1.05 The reporting system as designed is a good one. If it were working as contemplated in the Law, the Cayman Islands would be at the very forefront of financial accountability reporting among governments of the world.

1.06 Unfortunately, it is not operating as contemplated. The first set of government Ministry and Portfolio financial statements were due to be tabled in the Legislative Assembly by mid December 2005. At the end of April 2008, the audits have not yet been completed although it is hoped that they would be done soon. This means that the first set of statements are now nearly two and a half years late.

1.07 The situation is no better in the Statutory Authorities and Government Companies. Of the 25 entities, not one is in total compliance with the requirements of the PMFL. Many financial statements are two or more years late. And even when financial statements are done on time, in most cases the information is not being sent to the Legislative Assembly by way of an annual report as contemplated under the PMFL. As a result, information that should be publicly available remains confidential.



1.08 As a result of these problems, I believe that the Legislative Assembly has not been provided the tools necessary to achieve its vital function of financial oversight. Because of this, I believe that the Legislative Assembly has lost effective control of the public purse.

1.09 I find the current situation deplorable. It needs to be rectified immediately.

1.10 I call on Chief Officers (COs) and Chief Financial Officers (CFOs) of the various entities to make financial reporting a priority. I also call on members of the Legislative Assembly to take all possible actions to ensure that they receive accurate and timely accountability information.

1.11 The Office of the Auditor General will continue to actively monitor this situation. I intend to provide an annual update on the state of financial reporting within government with the hope of being able to report substantial progress in the coming years.

Cost Timing and Client Review

1.12 The Public Accounts Committee has been charged \$49,569 for this report as of the end of June 2008. There will be minimal extra cost associated with the finalization and distribution of this report but these costs should be minimal.

1.13 Readers should note that the date of this Report is April 30, 2008. This was the date that the Report was substantially complete. Readers should also note that there may be some changes in the information in the almost three months since that date. The cause for this delay is due to the client review process as outlined below.

1.14 The task of client review is a challenge with many Special Reports of the Auditor General. The goal of this process is to have interested parties to review a draft report and make suggestions for improvement. This Office has found that having different points of view to be an important part of the review and approval process.

1.15 This report was particularly challenging in this regard. The first task was to write to the Chief Officers of each of the Statutory Authorities and Government Companies to verify the information in Appendix 1. I also confirmed the tabling of annual reports with the Clerk of the Legislative Assembly to ensure the accuracy of the information. In addition, I reviewed paragraphs 9.03 to 9.06 with officials with the three entities mentioned. I believe that this process insured that the information contained in this Report relating to Statutory Authorities and Government Companies was accurate.

1.16 I also attempted to obtain a review of the Report by the Financial Secretary. To do that, I met with the Financial Secretary on May 06, 2008 to broadly review the Report and to request his comments. He made a commitment at that time to have comments back to this Office within two weeks, i.e. by May 20, 2008.



1.17 I did not receive any response from the Financial Secretary for six weeks. On June 23, 2008, I wrote to the Financial Secretary and requested any suggestions by the end of the week, i.e. June 27, 2008. The Financial Secretary wrote back and indicated that he would like to prepare a response. However, I did not hear from him by week end.

1.18 On July 08, 2008, I received an e-mail from officials in the Financial Secretary's Office indicating that a response would be made available to this Office on July 09, 2008. However, this deadline was not met and officials asked for additional time. A response was finally received on July 15, 2008.

1.19 This six page response was immediately reviewed by this Office. Although it contained minor suggestions for improvement of the Report, the vast majority of the response appeared to be the official response of the Portfolio of Finance and Economics relating to the Report itself. I immediately asked for a meeting with senior officials to discuss the response.

1.20 At that meeting, it was agreed that there were only minor suggestions for improvements. Officials stated that they would need another three weeks to prepare a detailed comments relating to the Report. Reluctantly, I agreed to the additional time.

1.21 However, on July 18, 2008, the Financial Secretary issued a press release presenting his comments relating to the Report. This now means that we have an official response to a report that has not even been issued yet.

1.22 Given the current situation, I believe that it is imperative that this Report be released immediately. I regret that I was unable to give the Portfolio of Finance and Economics the opportunity to suggest changes to this Report. However, I believe that they have been given more than enough time to do so. More importantly, I believe that this Report should be given to all members of the Legislative Assembly so that we can focus on how to improve the current deplorable situation regarding governmental financial reporting in this country.

Don Duguay

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22 July 2008



2. Development of the Financial Management Initiative

The Financial Management Initiative changed how Government accounts for expenditures

2.01 The Financial Management Initiative (FMI) began in early 1997 to modernize the way that government budgeted for its operations and how it accounted for its expenditures. A firm of consultants was hired in mid 1998 and by mid 1999 the Government had produced a Detailed Design and Implementation Strategy. It proposed a radical departure from the old method of budgeting by expenditure category and on the cash basis to recording accounts on an accrual basis of accounting.

Ministries and Portfolios report results by outputs

2.02 Under the FMI model, Government Ministries and Portfolios would budget by outputs with a clear link between the expenditures made by a Ministry and the results to be achieved through a series of measurable outputs. The Ministries and Portfolios would then be accountable for their expenditures through a financial accounting of their expenditures and an accounting of their outputs.

Individual Ministry and Portfolio statements are required

2.03 To accomplish this, many changes in how government used to account for its expenditures would have to change. For instance, the FMI envisaged that there would not be just one government accounting statement, but rather that each Ministry and Portfolio would be responsible for its own individual financial statement. This financial statement would include the normal types of financial statements; a balance sheet, a statement of revenue and expenses and a cash flow statement.

2.04 Additionally, the Ministry and Portfolio annual reports were also to provide a statement of outputs delivered. These output statements would categorize expenditure into a series of measurable outputs that had been agreed between the Ministry or Portfolio and the Legislative Assembly during the budgeting process. These outputs would be subject to agreed upon output measurements. It was hoped that these output statements would be the main accountability documents linking the expenditure of the Ministries and Portfolios and what Legislators wanted the Ministries and Portfolios to achieve.

Financial statements are to be prepared on an accrual basis of accounting

2.05 To achieve this, the FMI envisaged that the financial statements would be prepared on an accrual basis of accounting to reflect the desires of the International community that public sector financial statements would be more closely aligned with those in the private sector.

2.06 In short, the FMI proposed a whole new way of “doing business” for the Government of the Cayman Islands. Implementing the FMI would require massive changes on both the operations and the financial reporting for every government Ministry, Portfolio, Statutory Authority and Government Company.

*FMI enacted
by the PMFL*

2.07 The FMI was enacted through the passage of the Public Management and Financial Law (PMFL). This Law was first enacted in 2001 and has been revised several times since then.

2.08 This PMFL set provisions for the budgeting, public sector reporting and output and ownership performance. It also set standards and deadlines for all of these activities.

*Cayman
Islands has a
world class
accountability
system but...*

2.09 I believe that the PMFL is at the very forefront of public sector accounting. With this law, the Cayman Islands have achieved a standard of public accountability that is met by very few governments around the world. In fact, even large western democracies are trying to achieve the level of public accountability that the PMFL envisages for the Cayman Islands. I believe that the Cayman Islands have much to be proud of in how the PMFL proposed to have Ministries, Portfolios, Statutory Authorities and Government Companies report to the Legislative Assembly and the citizens of the Cayman Islands on its ongoing performance.

*Financial
statements are
very late*

2.10 However, the reality of the situation is that the reporting to date of government Ministries, Portfolios, Statutory Authorities and Government Companies has fallen well short of what is contemplated in the PMFL. Government financial reporting on both accounts and output has fallen years behind the required deadlines. Statutory Authorities and Government Companies continue to be late in preparing financial statements and even later in preparing annual reports for the Legislative Assembly. As a result, legislators are being constantly asked to provide new funding for various government Ministries, Portfolios, Statutory Authorities and Government Companies without any significant accountability reports from them as to what they did with previous funds allocated to them in previous years.

2.11 In short, the current laws provide an excellent basis to be accountable. However, efforts to date to meet the accountability provisions under the PMFL have been less than satisfactory. Without accountability, the entire budgeting process is rendered almost meaningless.



2.12 Today, in the Cayman Islands, there is at least \$1.5 Billion of operating expenditures that should have been accounted for that has not yet been reported to the Legislative Assembly. To date, there has been virtually no accounting to the Legislative Assembly for these funds even though there is a legislative requirement to do so. As a result, there has been no serious scrutiny of recent governmental expenditure by the Legislative Assembly since the enactment of the PMFL in July 2004.

*The LA has
lost control of
the public
purse*

2.13 As a result, I believe that the Legislative Assembly has lost effective control of the public purse. To regain it, the Legislative Assembly will need to ensure that the financial accountability documents required by law are sent to them on a timely basis so that there can be a fruitful discussion between members of the Legislative Assembly and senior government officials. Without such documents that detail the revenues and expenditures of the Ministries, Portfolios, Statutory Authorities and Government Companies, no effective control can take place.



3. The Current State of Affairs with Government Ministries and Portfolios

Government Ministries are to have annual reports within 4 months of year end

3.01 The PMFL Section 44 requires that each Ministry and Portfolio prepare an annual report for review within four calendar months of the end of the fiscal year. The two key elements of the annual report are the statement of outputs delivered and the financial statements. Section 44 (3) of the PMFL require that these statements be prepared within two months of the end of the fiscal year and submitted to the Auditor-General for auditing. The Auditor-General then has two months to audit the statements and render an opinion.

2004/05 financial statements were due October 31, 2005

3.02 The first year that the PMFL applied to Ministries and Portfolios was the fiscal year 2004/05 which ended June 30, 2005. This meant that according to the Law, financial statements and statements of outputs delivered were required to be submitted by Ministries/Portfolios to the Audit Office by August 31, 2005. The statements should have been audited and ready for the Ministry's/Portfolio's annual report by December 15, 2005.

Only 4 of 13 financial statements for 2004/05 have been signed to date

3.03 I regret to report that not one Ministry or Portfolio met this deadline for the original set of financial statements and statements of outputs. In fact, even at the date of this report (April 30, 2008) of the 13 government Ministries and Portfolios that existed at June 30, 2005, only four Ministries or Portfolios have audited financial statements for the 2004/05 fiscal year, These are (along with the date that the financial statements were signed by my Office):

The Office of the Complaints Commissioner	(December 5, 2005)
The Office of the Auditor General	(June 1, 2006)
The Portfolio of Legal Affairs	(January 18, 2007)
Judicial Administration	(February 26, 2008)

3.04 There has been much activity in the last few months towards finalizing the accounts of Ministries and Portfolios and I hope that these final statements will be finalized soon and presented to the Legislative Assembly.

Government to prepare a consolidated financial statement

3.05 Once these statements have been audited, and all the Statutory Authorities and Government Companies financial statements are attested to, the government will prepare a consolidated financial statement for all government entities (Entire Public Sector). Given the current state of affairs, it is impossible to predict when this will be completed.



Some delay was unavoidable but...

3.06 It was always anticipated that the first set of financial statements and statement of outputs delivered would not have been done on time. The use of accrual accounting, the newness of output statements and the very fact that Ministries and Portfolios were responsible for preparing financial statements for the first time indicated that there would be delays in getting proper accounts done. When unforeseen consequences such as Hurricane Ivan were added to the mix, it is perhaps inevitable that there would be significant delays.

2004/05 financial statements are now two and a half years late

3.07 But we are now nearly **two and a half years** late in the preparations of these financial statements and even today we cannot estimate with any accuracy when the final consolidated accounts for 2004/05 will be completed.

3.08 I find this totally unacceptable. While there is a rationale for some inevitable delay, I believe that the lack of financial statements and output accountability documents is so severe that it threatens the very ability of the Legislative Assembly to provide useful oversight on government expenditures on behalf of the citizens of the Cayman Islands.

Old financial statements have limited value

3.09 The 2004/05 financial statements, when they are finally produced and distributed to the Legislative Assembly, will be so out of date so as to be rendered practically meaningless. They will probably be ignored as the largely historical document that it will be. A great opportunity has been largely wasted in that Legislators have not been able to see what had been accomplished with the money given to Ministries and Portfolios in past years. This knowledge would have been invaluable to Legislators as they debate future budgets. Without it, members of the Legislative Assembly have been reduced to approving budgets by relying on last years budget and approving incremental increases. This was one of the problems that the FMI was trying to resolve. Sadly, it has not done so because of a lack of accountability documents.

The LA is looking at the 5th year of budgets without seeing the results of the first year of operations

3.10 At the time of writing this report, the budget for government Ministries and Portfolios for 2008/09 is being prepared. Again, legislators will be faced with the nearly impossible task of approving future expenditures with no accounting for funds spent in the last 4 years. This is not acceptable.



3.11 It has been pointed out that members of the Legislative Assembly have been given information on results through both the budget process and financial forecast. While this is undoubtedly true, the fact still remains that the formal accountability reporting process remains years behind. I believe that the timeliness of financial statements is a national problem that must be addressed as a matter of urgency.



4. How Did We Get to This Point?

There are several reasons why financial statements are so late

4.01 As I have mentioned, the continuing crisis in financial accounting is threatening the very foundation of good governance in this country. Financial accountability deadlines need to be enforced and greater efforts must be made to produce reliable financial information on a timely basis. To do so, we need to understand the factors that got us in this situation and what can be done to bring the situation to where it should be. In discussion with my staff, my Office has come to the following observations and conclusions. They are most likely not exhaustive but I hope they will be helpful in understanding how we got to this current dilemma.

4.1 Ministries and Portfolios Either Underestimated or Ignored the Consequences of the PMFL

There was little understanding of the obligations of the PMFL at the start of the process

4.1.01 It appears that, in hindsight most Ministries and Portfolios had little or no comprehension of what was required under PMFL and more importantly what they would need to do to meet their statutory obligations. This is true despite the fact that there were extensive attempts to educate the general civil service, and more importantly the financial component of the civil service, as to the requirements of the PMFL. This resulted in little effort made up front to make sure that the requirements for a successful implementation of the PMFL were in place.

Problems with recording of fixed assets

4.1.02 I can think of two examples that illustrate this lack of readiness. The first is the issue of fixed assets. Under the old rules of accounting, fixed assets such as buildings, cars, furniture etc, were not found in the official books of the Ministries and Portfolios. Usually, some subsidiary records were kept but these were incomplete and were not tied into the financial statements.

4.1.03 Under the PMFL, Ministries and Portfolios were required to keep good fixed assets schedules, account for them within the accounting system and provide for the depreciation of these assets. To do so would require each Ministry to:

- Make a determination of what assets it had; and
- Determine what was the original cost of the asset and how long it had been owned



4.1.04 The first task should have been relatively easy. Records could be used and counts done of all assets to ensure that the all assets were known. The second process, known as valuation, could not be done until the entity had a clear picture of what it owned. In many cases, valuation is easily traced to an invoice or some other document. In other cases, such as roads or buildings, other methods would be used and the process is more complex.

4.1.05 Unfortunately, the first step, identifying the assets owned was not initially done in the vast majority of cases. Why this was so is baffling because identification and valuation of assets was identified as one of the items that Ministries and Portfolios needed to do to move from cash to accrual accounting.

Despite reminders to do so

4.1.06 Nor could Ministries and Portfolios argue that they were unaware that this work needed to be done. Among other initiatives, my Office wrote in early 2004 to Ministries and Portfolios reminding them that an asset count needed to be done. My Office also offered to help in the task since it was one that was unfamiliar to many financial people within the government. The vast majority of Ministries and Portfolios did not take us up on our offer.

4.1.07 Given the poor reception to our offer at the start of the year, my Office sent out another e-mail to all CFO's in April 2005 stating that it was very important to do an asset count and again offering assistance. The importance of the year end fixed asset counts was also echoed by the Accountant General in May 2005. Although on this occasion some entities did indicate their intentions to conduct fixed assets counts, many of these counts were not properly executed and did not result in comprehensive fixed assets reports. As a result, many Ministries and Portfolios were either unable to produce an accurate fixed asset schedule or could not provide enough assurance to my auditors that the schedules they did produce were complete and accurate.

4.1.08 Despite this, I have attended several meetings where one of the excuses used for not producing financial statements was that the organization did not know what assets it owned. The key point of this story is that those organizations that did have problems with this aspect of accrual accounting did so because they ignored the sensible requirements that would have made the job much easier.

Output measurement was poor to non existent

4.1.09 Another example of organizations not understanding the process clearly was in the area of outputs. As I have mentioned previously, I have not reviewed all of the output statements for each Ministry and Portfolio. However, I have noted some examples already where a specific output was identified but no system was put in place to measure that output. It seemed as if something was developed to satisfy the paperwork requirements with no thought about how it would be measured.



4.2 Lack of Resources Available

Lack of financial resources contributed to the problem however...

4.2.01 One observation is that it seems clear in hindsight that there was not sufficient manpower in the financial area to implement the FMI. These new systems and accountability arrangements put the financial resources of government Ministries and Portfolios under considerable strain. This was recognized and most organizations over the last few years have significantly increased the resources devoted to finance. Yet despite this, the most fundamental piece of financial information, the financial and output statements, continue to not be produced.

CFO's are failing in their fundamental obligation to produce timely financial information

4.2.02 This is not acceptable. One of the main jobs of the CFO is to ensure that the people and systems are in place for financial information to be produced on a timely basis. This has not been done in the vast majority of the Ministries and Portfolios of the government of the Cayman Islands. As such, I find it difficult to conclude otherwise than the CFO of the various Ministries and Portfolios are failing in fulfilling a major component of their job; the production of timely and accurate financial information as mandated by Law.

4.3 Perceived lack of Urgency

Several "final" deadlines have been set but...

4.3.01 In the last two and a half years, there have been several deadlines set by the Financial Secretary and even the Leader of Government Business for the "final" completion of the 2004/05 financial statements. Each of these deadlines had similar components.

All but the last one was missed

4.3.01 Each of these deadlines stated that it was crucial to get the financial statements out on time and that there would be no extensions. Each of these times, CFOs agreed to produce accurate statements. Each of these times, my Office prepared for the deluge of financial statements. And finally, each of these times the deadlines were missed.

4.3.03 Even the intervention of the Cabinet and the Leader of Government Business has not helped. In November 2007, the Leader of Government Business met with CFO's and stated that all financial statements were to be delivered to the Audit Office by December 31, 2007 and that all available resources were to be devoted to ensure that the deadline is met. Even with this political intervention, this was another deadline that was not met.



Chief Officers and CFOs need to be held accountable for the lack of accountability statements

4.3.04 Many deadlines relating to the final submission of financial statements have been made during the last two and a half years. But all of them have been missed and there appears to have been little or no consequences to this lack of accountability.

PAC and other members of the LA can play a large part in holding people to account

4.3.05 I believe that the Legislative Assembly and more particularly the Public Accounts Committee (PAC) can play a large part in correcting this problem. I urge the PAC to call in Chief Officers and CFO in, one by one, to explain why annual reports have not been completed and submitted to them.

4.4 The Effect of Hurricane Ivan on Financial Reporting

Hurricane Ivan was one source of the delay

4.4.01 Certainly, one factor that must be considered is the impact of Hurricane Ivan on the FMI. There is no question that Hurricane Ivan had an impact on financial statement preparations in two ways. First, there was the physical damage in that records, both financial and otherwise, were damaged or destroyed by Ivan. Secondly, the government had serious and pressing issues immediately after the storm and I am sure that this had the effect of delaying the annual report presentation.

4.4.02 However, Hurricane Ivan was over three and half years ago. Cayman is justifiably proud of its recovery after Hurricane Ivan. However, I still hear Hurricane Ivan being used as an excuse for why financial statements are so late. It is simply time to put this excuse behind us and get on with the important job of preparing timely annual reports.



5. So What Can Be Done?

COs and CFOs need to ensure that timely financial information is produced and delivered to the LA

5.01 I have read in the local media the calls for politicians to ensure that financial statements are produced on a timely basis. Certainly, I believe that politicians can be a part of the solution but it is important to stress that it is primarily the responsibilities of the Chief Financial Officers and the Chief Officers to get the required information to the Legislative Assembly. They simply need to ensure that these statements are prepared on time and delivered to the Legislative Assembly. If they are not, it is up to the Legislative Assembly to hold them to account.

PMFL reporting deadlines are reasonable

5.02 Are the time frames reasonable? I believe that they are very aggressive, but achievable if there is the will to make financial reporting a priority.

5.03 I believe this because I have made it a priority for my Office to be compliant with the PMFL regarding financial accountability and for the most part we have met the deadlines.

The Office of the Auditor General has complied with the PMFL reporting deadlines for the last 2 years

5.04 To date, my Office has prepared and had certified three sets of financial statements and statement of outputs delivered. These were for the fiscal years: 2004/05, 2005/06 and 2006/07.

5.05 As I mentioned previously, my Office was not compliant with the reporting deadlines of the PMFL in 2004/05. Although we had our draft financial statement to the auditors by August 31, 2005, in accordance with the PMFL, it was not signed by our private sector auditors until June 1, 2006. This was because the auditors had never done a review and certification of outputs before and had to do some significant review and analysis before completing the job. Given the circumstances, I told them that it was understandable but it could not be repeated. In the next two years, the draft financial statements and statement of outputs delivered have been submitted on time to the auditors and were certified by the private auditor within the time frames of the PMFL.

A good record but not perfect

5.06 I make disclosure of my Office's accountability record to date for two reasons. Firstly, I believe in accountability and so by definition, I need to be accountable for my own Office's performance against the PMFL. We have not been perfect, but we have a good track record especially in the last two years.



*It is an Office
priority that
we be
compliant
with PMFL
deadlines*

5.07 More importantly, I state it to show that quick financial information is possible. I believe that the main reason that my Office has been able to meet the tight deadlines set out in the PMFL is that we have made it a priority to do. It is important for the credibility of my Office to have these things done “on time.” However, I realize that there are always conflicting priorities; other things that needed to be done at the same time. When faced with these problems, it has been the priority of my Office that the financial statements **need** to be done on time.

*PMFL
financial
statement
deadlines
NEED to be a
priority for all
of Government*

5.08 I call on all Chief Officers and CFOs to adopt a similar philosophy. These financial statements are important and it is critical to get them done on time. I recognize that it will not be easy but I encourage all Ministries and Portfolios to do everything possible to provide this important information to the Legislative Assembly in accordance with the time frames of the PMFL.



6. The State of Financial Statement Reporting for Statutory Authorities and Government Companies

SAs & GCs not complying with PMFL deadlines

6.01 The lack of financial statement accountability is not limited to government Ministries and Portfolios. There is also a severe lack of financial accountability in the Statutory Authorities and Government Companies.

6.02 At present, the Government owns or controls 25 different Statutory Authorities and Government Companies. Prior to the enactment of the PMFL, some of these organizations were audited by the Office of the Auditor General while others were audited by private sector accounting firms.

The PMFL made the audit of these companies the responsibility of the Office of the Auditor General

6.03 One of the significant changes in the PMFL was that my Office was made responsible for the audits of all government entities (Section 60 (a) (ii) of the PMFL). This is a significant improvement in our opinion as it centralizes the auditing function and ensures that all government agencies are subject to the same level of scrutiny.

However, some audits continue to be done by private sector accounting firms

6.04 However, in practice I continue to use private sector firms to do the auditing of certain entities. This is either due to type of business, such as Cayman Airways and CINICO, or because I believe that it is more cost effective for the audit to be done by private sector accounting firms. In such cases, we review the planning and the work to ensure that the work has been done to the standards we use for other government agencies. In all cases, the final audit report providing the opinion on the financial statements is provided and signed by my Office.

6.05 Another important improvement is that the PMFL provided an improved and consistent reporting regime for all statutory authorities and government companies.



6.06 Part V of the PMFL is an entire section of the Law that details the duties and responsibilities of Statutory Authorities and Government Companies. Besides requiring that these companies be audited by the Office of the Auditor General, each of these companies are now required for the 2004/05 and subsequent years to:

- Prepare a purchase agreement if they are selling outputs to the government
- Prepare an ownership agreement
- Prepare a half yearly report and
- Prepare an annual report.

Annual reports are to be prepared and submitted to the LA within four and a half months of year end

6.07 The timing for the annual report is similar to the one set out for Ministries and Portfolios. Each Statutory Authority and Government Company is required to prepare their financial statements within two months of the end of the fiscal year (i.e. August 31). The PMFL allows for two additional months for the statements to be audited by the Office of the Auditor General. Section 52 (4) of the PMFL requires that the annual report, including the financial statements, be prepared by the end of four months after the end of the fiscal year (October 31). The annual reports are then sent to the Ministry who are required to submit them four months and two weeks after the end of the fiscal year or on the first sitting day thereafter.

6.08 It should be noted that these are requirements of all Statutory Authorities and Government Companies for the fiscal year 2004/05 onwards. Before the introduction of the PMFL, various Statutory Authorities and Government Companies may have had accountability deadlines set up in their enabling legislation. However, this was not consistent in that some organizations had deadlines where others did not and the length of time given to each organization to prepare accountability information was not always the same. I believe that the new wording and consistency of the PMFL is a vast improvement from the previous process and provides a clear basis to hold Statutory Authorities and Government Companies accountable for financial and other information relating to its operations.



7. The Current Situation Relating to Financial Reporting of Statutory Authorities and Government Companies

7.01 For the fiscal year ending June 30, 2007, my Office was responsible for the audit of 25 Statutory Authorities and Government Companies.

7.02 I have prepared a chart in Appendix A that shows each of the Statutory Authorities and Government Companies and noted when financial statements have been signed off by my Office and which entities have submitted an annual report to the Legislative Assembly.

Not one of 25 companies is in compliance with PMFL reporting requirements

7.03 Of these 25 companies, **not one** company is in total compliance with the requirements for delivery of an annual report to the Legislative Assembly. This is a woeful record. As a result, I can only conclude that the accountability mechanisms of the Public Management and Finance Law are not being met by the Statutory Authorities and Government Companies and as a result, the Legislative Assembly has no ability to provide the financial oversight required of these entities.

7.04 While the record of financial accountability is poor for all government entities, there are some variations that should be noted so that readers can understand the full extent of the problem.



8. Some Companies Do Prepare Financial Statements in a Timely Manner.

Several government companies prepare financial statements on time

8.01 Within the 25 companies, most are two years or more behind in preparing financial statements and sending them to the Audit Office for audit. However, there are several who do submit their financial statements on a timely basis. These include:

- Cayman Islands National Insurance Company
- Cayman Islands Maritime Authority
- Cayman Islands Stock Exchange
- Electricity Regulatory Authority
- Information & Communications Technology Authority
- Cayman Islands Monetary Authority
- National Roads Authority
- University College of the Cayman Islands
- Water Authority of the Cayman Islands

8.02 All of these entities have submitted accounts for the 2006/07 fiscal year and have either received audited financial statements or are in the process of having their accounts audited. These organizations should be recognized as meeting their commitments under the PMFL to have their financial statements reviewed and certified by the Office of the Auditor General on a timely basis.

However, they have not submitted their financial statements to the LA through an annual report

8.03 However, even these organizations are not in full compliance of the Law. For their financial statements to become a public document they must be included in an annual report and that annual report must be submitted to the Legislative Assembly by the middle of November.

8.04 Not one of these entities has submitted an annual report for the 2006/07 year as yet.



Government companies avoid accountability when annual reports are not submitted

8.05 This means that the financial results of these entities remain confidential, even though the work to prepare, review and certify them is complete.

8.06 One example of this is the Cayman Islands National Insurance Company(CINICO). CINICO has been in existence for four years as of June 30, 2007 and has met the deadlines for the delivery of financial statements to the Audit Office each of the four years. Their latest accounts are audited with the 2006/07 audit opinion signed October 31, 2007; again in accordance with the PMFL.

8.07 However, when my Office was contacted recently by a journalist to obtain the financial results of CINICO over the last 4 years, we were unable to give them out since CINICO has never submitted an annual report to the Legislative Assembly.

Until an annual report is tabled, Audited financial statements remain confidential

8.08 Section 52(6) of the Public Management and Finance Law states that the annual report of a company shall be a public document once it is tabled in the Legislative Assembly. If an annual report is not tabled, then the contents of the annual report, including the financial statements, are not public documents. As a result, my Office is not able to release those financial statements even though they are finalized.

The current legislation regarding confidentiality needs to be changed

8.09 I believe that this is a situation that should not be allowed to continue. I continue to encourage all Statutory Authorities and Government Companies to submit annual report to the Legislative Assembly in accordance with the requirements of the PMFL. However, if an organization does not submit an annual report on a regular basis, I believe that there should be a mechanism in place that would allow the Office of the Auditor General to submit the audited accounts of the organization to the Legislative Assembly. This would serve two goals. Firstly, it would make the Legislative Assembly aware that audited financial statements were available. This would allow them to call for the organization to prepare and deliver an annual report. Secondly, reporting of the financial statements by the Office of the Auditor General to the Legislative Assembly would allow the financial statements to become public and would allow their review by members of the public.



The same situation repeats itself with several government companies

8.10 Readers of the chart in Appendix 1 will note that the situation regarding CINICO is similar to others who have their financial statements up to date. The Maritime Authority has not tabled an annual report since it came into existence in the 2004/05 fiscal year. The Cayman Islands Stock Exchange, the Electricity Regulatory Authority (ERA), the Information & Communications Technology Authority (ITCA), the National Roads Authority (NRA) and the University College of the Cayman Islands (UCCI) have each yet to table an annual report. The Water Authority (WAA) has not tabled an annual report since the year 2000.

8.11 I strongly encourage each of these entities to become fully compliant to the requirements of the PMFL by preparing annual reports for the 2006/07 and previous fiscal years and submitting them to the Legislative Assembly as soon as possible.



9. Other Statutory Authorities and Government Companies are Years Behind in Financial Reporting

9.01 Even with the concerns that I have with the Statutory Authorities and Government Companies mentioned above, it must be emphasized that these are organizations that at least have fairly up to date financial statements. This is not the case for a large number of the Statutory Authorities and Government Companies.

Most government companies are 2 years or more late in reporting

9.02 Of the remaining 16 entities, most are at least two years late in their financial reporting. As a result, the Legislative Assembly has no reliable up to date information on their operations.

The Health Service Authority continues to have reporting issues

9.03 Some of the largest and most important agencies to the people of the Cayman Islands are included in this category. One of these agencies is the Health Services Authority (HSA). Although these issues are known and have been discussed in the press, it is important to note again that the last audited financial statement for the HSA was for the fiscal year ending June 30, 2003. That financial statement opinion was signed by my Office in August 2005. We were unable to give an opinion on the fairness of the financial statements due to the poor financial records of the HSA. I have been informed that the HSA and the Ministry of Health are currently attempting to produce financial statements for the 2003/04 and 2004/05 fiscal years.

9.04 However, for the last two fiscal years, the HSA have produced financial statements and has submitted them to my Office to be audited.

Another example of late reporting is Cayman Airways

9.05 Another large government entity is Cayman Airways. This entity has required significant government equity injections over the last several years, but has not had an audited set of financial statements since the fiscal year ending June 30, 2003. The staff of Cayman Airways is currently working with their private sector auditors to have the four years of outstanding financial statements finalized and audited.



The Public Service Pension Board does prepare annual reports for the LA but is late in reporting

9.06 A third important government entity that is not up to date regarding financial reporting is the Public Service Pension Board (PSPB). Although there has been significant effort made to reduce the lateness of financial information from this organization, the latest set of audited financial statements for the PSPB was for the fiscal year ended December 31, 2004. This means that the PSPB is also more than two years behind in having up to date financial statements. However, unlike most of its contemporaries, it should be noted that the PSPB has prepared annual reports and submitted them to the Legislative Assembly. The vast majority of government agencies, even when they finally do get signed financial statements, do not then complete the final step in the accountability process by preparing an annual report.

9.07 I mention these three agencies because I believe that they are important organizations of the government of the Cayman Islands. They affect the health, security and comfort of every person resident in these Islands. It is understandable that residents will want to know about the activities of these entities. Information, including financial information, should be available to them to make judgments as to the effectiveness of their operations. Although financial information is not the only source of information about these and other government organizations, I believe it is fair to say that these entities are not providing the up to date financial information that the Legislative Assembly and the people of the Cayman Islands deserve.

9.08 I will not go through the listing and provide details of the financial reporting situation for each Statutory Authority and Government Company. However, Appendix 1 provides detailed information on each entity. I encourage readers to review this Appendix to determine the state of financial reporting for every Statutory Authority and Government Company required to produce an annual report in accordance with the provisions of the PMFL.



10. Conclusions

The state of financial accountability reporting is unacceptable

10.01 As I mentioned previously, the current state of financial and output reporting in the Cayman Islands Government is much less than required by Law. Most Government organizations are two years or more late in preparing annual financial statements. In addition, there seems to be a total breakdown in the preparation of annual reports by Statutory Authorities and Government Companies for the Legislative Assembly.

Legislators need timelier financial information to do their job

10.02 All of this means that the elected representatives of this country have not been given the financial accountability tools to provide their vital role of fiscal oversight. As a result, I believe that the Legislative Assembly has lost effective control of the public purse.

We have a good system in theory but...

10.03 The Cayman Islands Government has a very good financial system in legislation. If it were working as contemplated in the legislation, the Islands would have a world class financial accountability system and members of the Legislative Assembly would have the tools to provide effective oversight of the various Ministries, Portfolios, Statutory Authorities and Government Companies. However, it is not working as designed.

Change is required

10.04 The simple solution to the problem is to have Ministries, Portfolios, Statutory Authorities and Government Companies report to the Legislative Assembly in accordance with the provisions of the Public Management and Finance Law.

CO's and CFO's need to make financial accountability a priority

10.05 The difficult part is how to get the various organizations to do so. I believe that the solution starts with the Chief Officers and Chief Financial Officers of the various entities. I call on them to make financial reporting as outlined in the PMFL a priority within their organization. The current dire situation will not improve until Chief Officers and Chief Financial Officers make preparing accountability documents as important as the budget documents that get them the money in the first place.

MLA's can also play a role in changing the current situation

10.06 Members of the Legislative Assembly can also play a large role. They need to make it clear to Ministries, Portfolios, Statutory Authorities and Government Companies that financial accountability documents are important and that they expect the provisions of the PMFL to be adhered to. They should request from all Ministries, Portfolios, Statutory Authorities and Government Companies a commitment that financial accountability be brought up to date. Part of that process would be a schedule of how entities will bring their entity up to the reporting deadlines contemplated in the PMFL. These schedules should be subject to regular review, especially at budget time when these organizations come to the Legislative Assembly requesting additional funds.



Legislative changes will also help

10.07 In a previous paragraph, I suggested that a change in the PMFL that allowed financial statements to become public documents within a short period of time if the requirement of the annual report was not submitted by the Ministry, Portfolios, Statutory Authorities and Government Companies would be desirable. Another suggestion that I believe has merit relates to the requirements if the deadlines in the PMFL are not met. Currently, there is no requirement for accountability if the deadlines for financial accountability reporting are missed. I believe that the PMFL should be modified so that if a Chief Officer did not meet the deadlines proposed in the PMFL for financial accountability, a report must be submitted for review by the Legislative Assembly that would detail not only the cause of the delay but also when the required reports would be sent.

OAG will provide regular updates on financial accountability

10.08 And finally, the Office of the Auditor General will continue to play a role in helping the government become more accountable. I intend to do a similar analysis of financial reporting on an annual basis until the situation is significantly improved. By doing a yearly review, I hope to provide Members of the Legislative Assembly a progress report on the state of financial reporting.

Don Duguay

*Dan Duguay, MBA, FCGA
Auditor General
George Town, Grand Cayman
Cayman Islands*

30 April 2008



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Appendix 1
Table of Latest Financial Statement
And Current Status of Annual Reports
By Statutory Authorities and Government Company

Entity	Year-ended	Audit Completed Date Signed Off	Annual Report Tabled in LA
Cayman Airways Limited	30-Jun-03	25 April 2005	No
Cayman Airways Limited	30-Jun-04	In progress	No
Cayman Airways Limited	30-Jun-05	In progress	No
Cayman Airways Limited	30-Jun-06	In progress	No
Cayman Airways Limited	30-Jun-07	In progress	No
Cayman Islands Airports Authority	30-Jun-05	14 December 2007	No
Cayman Islands Airports Authority	30-Jun-06	Substantially completed	No
Cayman Islands Airports Authority	30-Jun-07	In progress	No
Cayman Islands Development Bank	30 June 2003 (6 month audit)	16 February 2004	No
Cayman Islands Development Bank	30-Jun-04	21 March 2005	Yes
Cayman Islands Development Bank	30-Jun-05	15 March 2007	No
Cayman Islands Development Bank	30-Jun-06	Substantially completed	No
Cayman Islands Development Bank	30-Jun-07	In progress	No
CINICO	30-Jun-04	23 November 2004	No
CINICO	30-Jun-05	11 October 2006	No
CINICO	30-Jun-06	15 December 2006	No
CINICO	30-Jun-07	31 October 2007	No
Cayman Islands Stock Exchange	30-Jun-03	16 February 2004	No
Cayman Islands Stock Exchange	30-Jun-04	07 January 2007	No
Cayman Islands Stock Exchange	30-Jun-05	17 October 2005	No
Cayman Islands Stock Exchange	30-Jun-06	06 December 2006	No
Cayman Islands Stock Exchange	30-Jun-07	Substantially completed	No



Entity	Year-ended	Audit Completed Date Signed Off	Annual Report Tabled in LA
Cayman Islands National Museum	31-Dec-02	19 May 2004	No
Cayman Islands National Museum	30-Jun-04	In progress	No
Cayman Islands National Museum	30-Jun-05	Not started	No
Cayman Islands National Museum	30-Jun-06	Not started	No
Cayman Islands National Museum	30-Jun-07	Not started	No
Cayman National Cultural Foundation	31-Dec-01	29 Sept 2002	No
Cayman National Cultural Foundation	30-Jun-03 (18 month audit)	In progress	No
Cayman National Cultural Foundation	30-Jun-04	In progress	No
Cayman National Cultural Foundation	30-Jun-05	Not started	No
Cayman National Cultural Foundation	30-Jun-06	Not started	No
Cayman National Cultural Foundation	30-Jun-07	Not started	No
Children & Youth Services (CAYS)	30-Jun-03	04 October 2007	No
Children & Youth Services (CAYS)	30-Jun-04	04 October 2007	No
Children & Youth Services (CAYS)	30-Jun-05	04 October 2007	No
Children & Youth Services (CAYS)	30-Jun-06	04 October 2007	No
Children & Youth Services (CAYS)	30-Jun-07	Not started	No
Civil Aviation Authority	31-Dec-00	19 June 2002	No
Civil Aviation Authority	31-Dec-01	09 December 2002	No
Civil Aviation Authority	31-Dec-02	05 October 2005	No
Civil Aviation Authority	30-Jun-03	05 October 2005	No
Civil Aviation Authority	30-Jun-04	21 September 2006	No
Civil Aviation Authority	30-Jun-05	Substantially completed	No
Civil Aviation Authority	30-Jun-06	Not started	No
Civil Aviation Authority	30-Jun-07	Not started	No



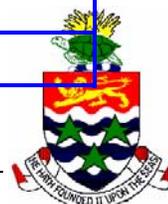
Entity	Year-ended	Audit Completed Date Signed Off	Annual Report Tabled in LA
Court Funds Office	31-Dec-01	Substantially completed	No
Court Funds Office	31-Dec-02	Substantially completed	No
Court Funds Office	30 June 2003 (6 month audit)	Substantially completed	No
Court Funds Office	30-Jun-04	In progress	No
Court Funds Office	30-Jun-05	In progress	No
Court Funds Office	30-Jun-06	In progress	No
Court Funds Office	30-Jun-07	In progress	No
Electricity Regulatory Authority	30-Jun-05	09 August 2007	No
Electricity Regulatory Authority	30-Jun-06	09 August 2007	No
Electricity Regulatory Authority	30-Jun-07	In progress	No
Health Services Authority	30-Jun-03	12 August 2005	No
Health Services Authority	30-Jun-04	F/S not to be submitted	No
Health Services Authority	30-Jun-05	F/S not to be submitted	No
Health Services Authority	30-Jun-06	In progress	No
Health Services Authority	30-Jun-07	In progress	No
Information and Communications Technology Authority	30 June 2003 (13 month audit)	15 December 2005	Yes
Information and Communications Technology Authority	30-Jun-04	15 June 2006	Yes
Information and Communications Technology Authority	30-Jun-05	02 November 2006	No
Information and Communications Technology Authority	30-Jun-06	04 July 2007	No
Information and Communications Technology Authority	30-Jun-07	06 March 2008	No
Maritime Authority of the Cayman Islands	30-Jun-06	01 March 2007	No
Maritime Authority of the Cayman Islands	30-Jun-07	Substantially completed	No



Entity	Year-ended	Audit Completed Date Signed Off	Annual Report Tabled in LA
Monetary Authority	30-Jun-03	30 October 2003	No
Monetary Authority	30-Jun-04	12 January 2005	Yes
Monetary Authority	30-Jun-05	08 November 2005	Yes
Monetary Authority	30-Jun-06	31 October 2007	No
Monetary Authority	30-Jun-07	Substantially completed	No
National Drug Council	30-Jun-02	15 January 2003	No
National Drug Council	30-Jun-03	09 June 2004	No
National Drug Council	30-Jun-04	24 May 2007	No
National Drug Council	30-Jun-05	24 May 2007	No
National Drug Council	30-Jun-06	12 February 2008	No
National Drug Council	30-Jun-07	In progress	No
National Gallery of the Cayman Islands	31-Dec-02	17 May 2006	No
National Gallery of the Cayman Islands	30-June-2004 (18 month audit)	17 May 2006	No
National Gallery of the Cayman Islands	30-Jun-05	03 October 2007	No
National Gallery of the Cayman Islands	30-Jun-06	03 October 2007	No
National Gallery of the Cayman Islands	30-Jun-07	In progress	No
National Housing & Community Development Trust	30-Jun-05	05 July 2007	No
National Housing & Community Development Trust	30-Jun-06	Substantially completed	No
National Housing & Community Development Trust	30-Jun-07	In Progress	No
National Roads Authority	30-Jun-05	30 August 2006	No
National Roads Authority	30-Jun-06	07 December 2006	No
National Roads Authority	30-Jun-07	15 January 2008	No



Entity	Year-ended	Audit Completed Date Signed Off	Annual Report Tabled in LA
Port Authority	31-Dec-03	03 December 2004	No
Port Authority	30-Jun-04	24 October 2005	No
Port Authority	30-Jun-05	31 October 2006	No
Port Authority	30-Jun-06	Substantially completed	No
Port Authority	30-Jun-07	Not started	No
Public Service Pensions Fund	31-Dec-99	14 March 2003	No
Public Service Pensions Fund	31-Dec-00	21 July 2004	No
Public Service Pensions Fund	31-Dec-01	30 September 2005	Yes
Public Service Pensions Fund	31-Dec-02	09 May 2006	Yes
Public Service Pensions Fund	31-Dec-03	10 August 2006	Yes
Public Service Pensions Fund	31-Dec-04	09 July 2007	Yes
Public Service Pensions Fund	30-Jun-05	Substantially completed	No
Public Service Pensions Fund	30-Jun-06	Not started	No
Public Service Pensions Fund	30-Jun-07	Not started	No
Segregated Insurance Fund	30-Jun-05 (16 month audit)	13 February 2006	Yes
Segregated Insurance Fund	30-Jun-06	07 June 2007	No
Segregated Insurance Fund	30-Jun-07	Not Started	No
Tourism Attraction Board	31-Dec-98	31 July 2002	No
Tourism Attraction Board	31-Dec-99	31 July 2002	No
Tourism Attraction Board	31-Dec-00	18 February 2003	No
Tourism Attraction Board	31-Dec-01	02 September 2003	No
Tourism Attraction Board	31-Dec-02	27 February 2004	No
Tourism Attraction Board	30 June 2003 (6 month audit)	10 November 2005	No
Tourism Attraction Board	30-Jun-04	12 June 2007	No
Tourism Attraction Board	30-Jun-05	In progress	No
Tourism Attraction Board	30-Jun-06	In progress	No
Tourism Attraction Board	30-Jun-07	Not started	No



Entity	Year-ended	Audit Completed Date Signed Off	Annual Report Tabled in LA
Turtle Farm Ltd.	30-Jun-04	07 November 2005	No
Turtle Farm Ltd.	30-Jun-05	Substantially completed	No
Turtle Farm Ltd.	30-Jun-06	In progress	No
Turtle Farm Ltd.	30-Jun-07	Not started	No
University College of the Cayman Islands (Formerly known as Community College of the Cayman Islands)	31-Dec-02	15 January 2004	No
University College of the Cayman Islands (Formerly known as Community College of the Cayman Islands)	30-Jun-03 (6 month audit)	28 January 2005	No
University College of the Cayman Islands (Formerly known as Community College of the Cayman Islands)	30-Jun-04	October 2005	No
University College of the Cayman Islands	30-Jun-05	02 June 2006	No
University College of the Cayman Islands	30-Jun-06	06 March 2007	No
University College of the Cayman Islands	30-Jun-07	Substantially completed	No
Water Authority	31-Dec-01	31 July 2002	No
Water Authority	31-Dec-02	18 June 2003	No
Water Authority	30-Jun-03 (6 month audit)	21 January 2004	No
Water Authority	30-Jun-04	19 January 2005	No
Water Authority	30-Jun-05	21 December 2005	No
Water Authority	30-Jun-06	17 January 2007	No
Water Authority	30-Jun-07	Substantially completed	No

