



Cayman Islands

**SPECIAL REPORT OF
THE AUDITOR GENERAL**

ON THE

***STATE OF FINANCIAL ACCOUNTABILITY
REPORTING
(Update)***

**Office of the Auditor General
Cayman Islands**

April 2010

**STATE OF FINANCIAL ACCOUNTABILITY
REPORTING
(UPDATE)
TABLE OF CONTENTS**

Executive summary	1
Background	4
Focus of the audit	5
Update and assessment of the current status of financial accountability reporting	6
Government ministries and portfolios have fallen further behind.....	6
Statutory authorities and government companies have made little progress in achieving financial accountability.....	7
Annual reports are not being tabled and made public.....	9
Financial reporting to the Legislative Assembly lacks credibility.....	9
Assessment of actions taken by the Government since my 2008 Special Report	11
Initial response by government officials to my 2008 Special Report was inadequate.....	11
Public Accounts Committee did not hold a hearing to discuss my 2008 Report.....	12
Response to my 2008 Special Report recommendations during the last two years has been inadequate.....	13
Monitoring and reporting by the Government on the status of financial accountability reporting has been unsatisfactory.....	14
Limited actions to restore financial accountability reporting have been ineffective.....	14
Why this unacceptable situation is not being fixed.....	16
Conclusion	20
APPENDIX 1: About the Audit	21
APPENDIX 2: Status of financial accountability reporting for statutory authorities and government companies	23
APPENDIX 3: Press release from the Financial Secretary 18 July 2008	32
APPENDIX 4: Description of the Financial Accountability Framework	34

STATE OF FINANCIAL ACCOUNTABILITY REPORTING (UPDATE)

Executive summary

1.01 In July 2008, I tabled a Special Audit Report in the Legislative Assembly describing a very grim assessment of the state of financial accountability reporting throughout the Cayman Islands Government. I reported that the Government and its many statutory authorities and government companies were several years behind in preparing their financial statements and needed to take immediate action to fix the problem. I expected the Government to take swift and decisive action to correct the situation by restoring financial accountability for public funds and ensuring the good international reputation of the Cayman Islands.

1.02 In this Report, I describe how the recommendations in my 2008 Special Report were not effectively acted upon by the Government and, after assessing the current situation, I have concluded that the state of financial accountability reporting has gotten worse in the two years since I last reported on this matter to the Legislative Assembly. In fact, many elements of financial accountability reporting are now two years further behind than when I first reported on them. For example, the Government is still working on preparing the 2004/05 Entire Public Sector financial statements and the Cayman Airways has still not finalized its 2004/05 financial statements.

1.03 While the Government has taken some action since my last Report by increasing the number of accountants doing the work and spending an additional \$1 million in the current fiscal year to address the problem, I have assessed the efforts as being too limited and therefore; insufficient to address the situation.

1.04 Even in the instances where financial statements have been prepared, there has been a lack of accountability. For example, I found that there were a total of 73 individual financial statements of government entities completed and audited by my Office from 2004 to 2009 that have not been tabled in the Legislative Assembly or included in annual reports so that the entities can be held accountable. As well, I found one ministry's financial statements for 2004/05 that has still not been tabled in the Legislative Assembly. This means that the financial results of these entities are not public information and cannot be effectively scrutinized by Members of the Legislative Assembly or the general public. I concluded that this situation is completely unacceptable. On a positive note, I found some improvements in the timeliness of reporting by a few statutory authorities; but overall progress is unsatisfactory.



1.05 The issue of financial accountability reporting is not only one of being several years behind on reporting to the Legislative Assembly by the core government and various government entities, but also one of a lack of credible reporting. For financial statements to be credible, my audit opinions have to be unqualified. Unfortunately, the financial statements that the Government has prepared and that I have audited are mostly qualified; or in other words, not reliable.

1.06 I still believe that the key provisions of the *Public Management and Finance Law* provide the kind of financial management and reporting needed by the Government of the Cayman Islands. The basic concepts of accrual accounting and financial accountability are as needed today as they were when the legislation was passed in 2004. Government officials have simply not put in place the necessary means to effectively implement it.

1.07 To address this crisis, I have made four recommendations in this Report. In summary, the Government should consider the following opportunities to restore financial accountability reporting:

- **Leadership** – Someone has to be appointed the champion in order to effectively take responsibility and be held accountable to address this crisis. The individual responsible should have the necessary abilities, resources and authority to take on the considerable challenge of restoring financial accountability.
- **Strategic direction** – The Government should determine what the costs and benefits are of preparing financial accountability reports that are now five to six years old while, in the meantime, not providing accountability for its current activities. The result of this analysis should offer a clear strategic direction and the development of a comprehensive action plan to restore financial accountability reporting without any further delay.
- **Governance framework** – There are some impediments for improving financial accountability reporting including the current financial governance framework. While individual Chief Officers and Chief Financial Officers are responsible for preparing financial accountability reports, we found that there is a need to have more central direction and authority for the financial function in the Government to ensure that the requirements of the *Public Management and Finance Law* are met. It seems unclear to government officials that they have this authority and that they can provide this kind of leadership.
- **Monitoring and oversight** - There needs to be active and effective monitoring of the Government's action plan by an oversight body, such as the Legislative Assembly, to ensure its ultimate success.

1.08 The Ministry of Finance, Tourism and Development, on behalf of the Government, has responded to the recommendations.



1.09 In my opinion, the current state of financial accountability reporting is so dire that only significant intervention by everyone involved, including the Members of the Legislative Assembly, can provide the necessary means to correct this situation. I believe, however, that there is still an opportunity for financial accountability to be restored but that the Government will have to take extraordinary measures at this time to achieve this.

1.10 I believe this situation has become a national crisis that could lead to tremendous consequences for the Cayman Islands Government if not addressed immediately. I express this because the Constitution and laws governing this country demand this level of accountability by government officials. More importantly, I believe that the people of the Cayman Islands want and deserve this level of accountability. I therefore urge the Government to treat this crisis as a matter of national urgency.

Don Duguay

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

April 13, 2010



Background

2.01 In July 2008, I reported to the Legislative Assembly on the state of financial accountability reporting in the Cayman Islands Government. In my Report, I provided a description of the financial accountability framework and how it came into existence. I also discussed my belief that the framework for financial accountability of the Cayman Islands Government is at the forefront of public sector accounting in the world.

2.02 In my 2008 Report, I outlined some very serious concerns I had with respect to the lack of financial accountability of the Cayman Islands Government as a whole. I described the situation as deplorable and concluded that the Government had effectively lost control of the public purse. There was no other way for me to describe what I considered to be a complete lack of due regard for accountability by government officials. I concluded that the situation needed to be rectified on an urgent basis.

2.03 In this earlier Report, I described a situation where the Government had not produced financial statements for the whole of government since 2004 and where most portfolios and ministries were several years behind in preparing financial statements in accordance with the *Public Management and Finance Law (2008 revision)* (“PMFL” or “the Law”). I found some statutory authorities and government companies to be doing better than others in preparing financial statements and having them audited. However, in many cases, I noted that those financial statements and the associated annual reports required by the Law were not being tabled in the Legislative Assembly, thereby not providing the kind of accountability needed for public resources.

2.04 I could not have used stronger language when I found such a dire situation for financial accountability reporting; to implore the Government to take corrective action; and to discuss the impacts and risks of not taking that action.

Excerpts from 2008 Report:

*“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.**”*

*“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.**”*



“I believe that the timeliness of financial statements is a national problem that must be addressed as a matter of urgency.”

2.05 As I said in 2008, I believe that financial accountability is a fundamental underpinning of good governance and transparency for the management of public resources. Without accurately reporting the results of the Government’s operations on a timely basis, I concluded at the time that the Government could not effectively manage the resources entrusted to it by the citizens of the Cayman Islands.

2.06 I have recently conducted a follow-up review of these very serious matters. This Report contains the results of my review.

Focus of the audit

3.01 I focused my audit on providing an update and an assessment of the current status of financial accountability reporting in government ministries and portfolios as well as the statutory authorities and government companies in the Cayman Islands Government. I also went back to the recommendations I made in the 2008 Report and assessed the nature and effectiveness of actions taken by the Government in the last two years. Finally, I described and reviewed the financial accountability framework and assessed how well it was functioning.

3.02 Please see *Appendix 1: About the audit* for more information on the objectives, criteria and approach for this audit.



Update and assessment of the current status of financial accountability reporting

4.01 I have assessed two aspects of the Government's financial accountability reporting framework¹:

- timely preparation and audit of annual financial statements; and
- timely preparation and tabling of annual reports in the Legislative Assembly.

4.02 In addition, I assessed the general state of the reliability of information presented in the financial statements.

Government ministries and portfolios have fallen further behind

4.03 There have been many changes in recent years to the structure of government ministries and portfolios which makes it difficult for the Government to prepare financial statements and makes my reporting on their status challenging.

4.04 Despite the work being done by a task force of accountants as discussed later in this Report, these government entities are further behind than when I last reported on their status.

4.05 In 2008, I reported that only four ministries and portfolios had completed financial statements and had them audited for 2004/05. In 2010, I am reporting that all ministries and portfolios have completed financial statements for 2004/05 and have had them audited except for the consolidated Entire Public Sector (EPS) financial statements. Therefore, the Government is now almost two years further behind than when I reported in 2008.

4.06 My assessment focused on financial reporting; however, the financial accountability framework of the Cayman Islands includes reporting on outputs as well. In 2008, I reported the significant lack of systems and controls in place that I found in conducting the audits of the 2004/05 financial statements, including reporting on outputs. Based on audit work I have performed since my 2008 Report, I can report that there has been little or no progress with regard to improving this situation.

4.07 In Table 1, I provide a status report of where ministries and portfolios are with respect to the preparation, auditing and tabling of financial statements and annual reports. Some ministries and portfolios have recently sent my Office draft financial statements for 2005/06 along with supporting information to conduct the audit work. However, my Office has only been provided sufficient information in a few instances to conduct the necessary audit work.

¹ The financial accountability framework is described in Appendix 4.



Table 1: Status of financial reporting to the Legislative Assembly by ministries and portfolios

Ministry/Portfolio	2004/05	2005/06	2006/07	2007/08	2008/09
Office of the Auditor General	✓	✓	✓	✓	✓
Portfolio of Legal Affairs	✓	✓	✓	✓	
Judicial Administration	✓	✓	✓	✓	
Office of the Complaints Commissioner	✓	✓	✓		
All other ministries and portfolios	✓				

4.08 While I report that all financial statements have been prepared and audited for 2004/05 for the ministries and portfolios, the financial statements for the Ministry of Education have yet to be tabled in the Legislative Assembly.

4.09 Entire Public Sector statements two years further behind After all the individual ministries, portfolios, statutory authorities and government companies have completed their financial statements, the PMFL calls for consolidated or EPS financial statements. These consolidated statements would show the complete financial picture for all parts of government operations.

4.10 Despite the progress made by the Task Force discussed in paragraph 5.23, the Ministry of Finance, Tourism and Development has yet to provide my Office a draft set of financial statements, the supporting financial records as well as other information necessary to audit the Entire Public Sector (EPS) financial statements for 2004/05.

Statutory authorities and government companies have made little progress in achieving financial accountability

4.11 Progress of preparation and audit of annual financial statements is slow: In my 2008 Report, I brought a very dire situation to the attention of the Legislative Assembly. This situation has improved, but not as much as I had hoped. I can report that certain statutory authorities and government companies have made some efforts to improve their performance with respect to preparing more timely financial statements that are auditable.

4.12 In Appendix 2, I have included an update of the status of financial accountability reporting for statutory authorities and government companies. The update includes how well these entities are doing in preparing and having audited their financial statements



and how timely their annual reports are being tabled in the Legislative Assembly providing full accountability of government resources.

4.13 In Table 2, I have listed those entities that have made progress to improve financial accountability by becoming more current in the preparation of their financial statements.

Table 2: Progress being made in the timeliness of financial statements for statutory authorities and government companies

Statutory authorities and government companies	Progress since 2008 Report
Cayman Islands Development Bank	from three years behind to two years
Civil Aviation Authority	from three years behind to two years
Electricity Regulatory Authority	from two years behind to current
Health Services Authority	from three years behind to two years (but skipped 2 years of reporting)
Maritime Authority	from two years behind to one year
National Housing Development Trust	from three years behind to current
National Roads Authority	from one year behind to current
Public Service Pensions Board	from three years behind to one year

4.14 In summary, eight of the 25 statutory authorities and government companies have improved their timeliness in regards to preparing annual financial statements. In addition, three of the 25 were and remain current and generally up to date (CINICO, ICTA and CIMA). That means the remaining fourteen, or more than half of the statutory authorities and government companies, did not improve or are doing worse; as is the case with UCCI and Cayman Airways. With respect to Cayman Airways, the financial statements for 2004/05 have not been finalized and audited. The management of the Health Services Authority (HSA) decided they could not prepare financial statements for 2003/04 and 2004/05 because of deficient accounting records. While we cannot condone the practice of HSA not preparing critical financial accountability reports, we believe that the dire state of accounting records during these years necessitated this extraordinary action. We understand that the Legislative Assembly has been fully apprised of this departure from the *Health Services Authority Law* and the PMFL as well as HSA's reasons for not meeting these legal reporting responsibilities.

4.15 While I applaud the efforts of the eight statutory authorities and government companies that have improved the timeliness of their financial statements, much more



work needs to be done. At the current rate, it will be several years before this element of the financial accountability framework can be assessed as well-functioning for statutory authorities and government companies.

4.16 Progress of preparation and tabling of annual reports in the Legislative Assembly: With respect to the preparation and tabling of annual reports in the Legislative Assembly, only three of the 25 statutory authorities and government companies improved in their performance. These entities include CINICO, CIMA, and the Water Authority. The remaining 22 entities have not improved their performance or their reporting has gotten worse.

Annual reports are not being tabled and made public

4.17 More concerning to me is the lack of providing information in the form of annual reports to the Legislative Assembly once the financial statements have been prepared and audited by my Office. In my analysis of the status of financial accountability reporting, I counted 73 financial statements that were prepared but not appropriately tabled with annual reports in the Legislative Assembly. This means that the financial reports and the audit opinions prepared by my Office cannot be made public. This lack of transparency and public scrutiny is an effective avoidance of accountability by government officials that I consider completely unacceptable.

Financial reporting to the Legislative Assembly lacks credibility

4.18 While completeness and timeliness of financial reporting are important elements of achieving a satisfactory level of financial accountability, it is also important that financial statements are prepared in accordance with generally accepted accounting principles and the PMFL. Evidence that this is happening are the opinions I attach to those financial statements, which become an integral part of the accountability framework. When I issue an opinion without qualification, the reader of those statements can rely on the information contained therein and use them to make decisions; whether they are managers using the information to plan future activities or outside users who wish to understand the financial condition of the entity. A qualified opinion means that a portion of the financial statements cannot be relied upon, but that the rest of the statements can be relied upon by the reader. An adverse opinion means that there are such significant deficiencies with the information in the financial statements; they should be considered unreliable for the user and the information contained therein is not trustworthy. A disclaimer of opinion means I was not provided with sufficient information to conduct an audit.

4.19 For some of the statutory authorities and government companies that I audit, I have either disclaimed an opinion or provided a heavily qualified or adverse opinion. Some of these are large entities such as the Health Services Authority. In other words,



the financial statements lack the credibility required to be relied upon by a reader of those financial statements.

4.20 As noted in Table 3, of the thirteen ministry and portfolio audits completed for 2004/05, I issued nine opinions that were either qualified or adverse. Only twelve of the thirteen audited financial statements were tabled in the Legislative Assembly². As I noted, all the opinions are issued by my Office except for the audit of my own Office's financial statements that is performed by PricewaterhouseCoopers.

4.21 The opinions issued for financial statements of ministries and portfolios for the 2004/05 fiscal year are as listed in Table 3.

Table 3: Opinions issued for 2004/05 ministry and portfolio financial statements²

OPINION	MINISTRY / PORTFOLIO
Without qualification	Finance and Economics, Civil Service, Complaints Commissioner, Auditor General
Qualified	Cabinet Office, Legal Affairs, Judicial, Planning
Adverse	Internal and External Affairs, Community Service, Health, Tourism



² As the Ministry of Education financial statements have not been tabled as of the date of this report, we are precluded from including the results of this audit in this report.

Assessment of actions taken by the Government since my 2008 Special Report

5.01 Because of the seriousness of the matters I raised in my July 2008 Report, I expected that government officials would have developed a comprehensive plan for the restoration of financial accountability in the Cayman Islands Government. As part of the plan, I expected that there would have been periodic reporting to the Legislative Assembly on progress and how the Government was doing in implementing the plan.

Initial response by government officials to my 2008 Special Report was inadequate

5.02 The Government did not provide a response to the recommendations of my 2008 Report at the time it was published. I have attached, as Appendix 3 to this Report, a copy of a press release that the Financial Secretary issued in response to media reports about the audit that were published prior to the release of the Report. In the Financial Secretary's press release, there is no indication of the manner by which the Government was going to address the problem of the lack of financial accountability; instead it only offered reasons for not doing it properly.

5.03 The press release said that *"the traditional financial statements component of annual reports have been thoroughly examined by the Auditor General's Office without significant difficulties or delay."* This statement is simply not true as evidenced by the information I provided in 2008 and have updated in 2010 about the state of financial reporting by government entities.

5.04 In my opinion, the press release implied that it was acceptable for the Legislative Assembly to use financial reporting information in the budgetary process even though it was incomplete and not audited. I find it hard to understand how any legislative body would want to use incomplete and unaudited information when making the kind of strategic and operational decisions demanded of it. In fact, I believe this situation has to be considered unacceptable for anyone who is relying on the financial information produced by the Government of the Cayman Islands.

5.05 I was disappointed that the press release made reference to my Office as being part of the reason for the lack of financial accountability instead of acknowledging the Government's responsibility for what had happened. (I address the issues of governance and leadership later in this Report.)

5.06 Normally, I would not discuss my concerns regarding a press release issued by the Financial Secretary, however, I am providing these comments to demonstrate some of the reasons I believe the Government has not been taking the necessary action to restore financial accountability in the Cayman Islands Government. For example, I found that there was no comprehensive review done to find out why financial accountability reporting was not working. There was no plan developed. After my 2008 Report was tabled in the Legislative Assembly, no one in the Government took responsibility for



managing and monitoring the progress being made to restore financial accountability. Portfolios and ministries within the core government as well as statutory authorities and government companies have been effectively left alone to develop their own plans and prioritize the development of financial reports on their own.

Public Accounts Committee did not hold a hearing to discuss my 2008 Report

5.07 In 2008, I said 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.”*

2010 update: This did not happen.

5.08 The following is an excerpt from an article in the August 7, 2008 edition of the Caymanian Compass:

“In wake of the recent Special Report of the Auditor General titled, The State of Financial Accountability Reporting, the Public Accounts Committee acknowledges the long standing problem with the lack of timely financial statements being made available for audit by the audit office.

The PAC also wishes to stress the importance of timely financial information and compliance with the Public Management and Finance Law.

The PAC notes that they will commence witness calling and testimony by early September (2008 added). They intend to call a wide array of senior public officers including the Hon. Chief Secretary, the Hon. Financial Secretary, Chief Officers and Chief Financial Officers. Whilst the Auditor General’s report paints a dismal picture, the PAC’s focus will be on solutions.”

5.09 Normally, after I table a report in the Legislative Assembly, I expect that the Public Accounts Committee would hold a hearing to better understand the nature of the findings by calling witnesses and preparing a report that outlines their recommendations on what they believe should be done to address the matters I raise.

5.10 I am disappointed that the Public Accounts Committee did not hold a hearing on my 2008 Report. In late 2009, the Committee met to discuss the Report, however, the members agreed to not have any witnesses called at the time and I was asked to provide an update for them to consider instead. As the Auditor General of the Cayman Islands, I had to ask myself what would precipitate a better reason for the Public Accounts Committee to carry out its role than a report that states the Government has effectively lost control of the public purse.



Response to my 2008 Special Report recommendations during the last two years has been inadequate

5.11 As mentioned earlier, I expected the Government to prepare a comprehensive plan to restore financial accountability after tabling my 2008 Report. A key element of that plan should have been an understanding of the magnitude of the problem and the nature of the challenges required to correct the situation. In conducting my review, I found that the Government did some work to understand the problem; however, they only focused on accounting system issues. For example, we did not find an assessment of the capacity of individual entities or the Government as a whole to start meeting the financial accountability reporting requirements of the PMFL. More importantly, I did not find a comprehensive analysis of the impediments for government entities to produce timely and credible annual financial reports. Therefore, I believe that without such a comprehensive understanding, there was no way to determine what steps should have been being taken after I tabled my 2008 Report to achieve an effective result.

5.12 In 2006, government officials prepared a report entitled “*Report to the Cabinet on the Review of the Public Management and Finance Law (2005 Revision)*”. The Report provided a number of recommendations to deal with issues related to the implementation of the Law. For example, the Report discusses capability issues at both the ministry and portfolio level and within the Ministry of Finance, Tourism and Development. As well, it mentions the need for “improved communication and capability support processes”.

5.13 While the Government’s report provided a comprehensive review of the issues and impediments to implement the provisions of the PMFL in 2006, I did not find any evidence it has been followed up by government officials.

5.14 When I prepare audit reports, I include recommendations for the Government to correct the problems we find. My Report to the Legislative Assembly in July 2008 had the following recommendations that I have updated in this recent review.

5.15 In 2008, I said “*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.*”

2010 update: *There has been some progress for a few entities, but generally, this did not happen.*

5.16 I also said: *I strongly encourage each of these entities (statutory authorities and government companies) 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.*

2010 update: *The lack of progress is unacceptable.*



Monitoring and reporting by the Government on the status of financial accountability reporting has been unsatisfactory

5.17 I was surprised to find a lack of monitoring by the Government of this situation since I reported on it in 2008. For example, while I was drafting this Report, I became aware that a Parliamentary Question was asked by North Side MLA, Mr. Ezzard Miller, regarding the current state of financial accountability reporting. In response to the question, the Ministry of Finance, Tourism and Development reported on the current state of financial reporting by listing a number of entity financial statements and annual reports tabled in the Legislative Assembly but without any analysis of what the data meant including whether financial accountability was improving or deteriorating.

5.18 I do not see it as my role to inform the Legislative Assembly on the status of financial accountability reporting. As I indicate earlier, I expected Government officials to provide this information. I remind the Members of the Legislative Assembly that it is my mandate and role to conduct audits of the Government's financial statements and to report to the Legislative Assembly on what I find. I cannot conduct an audit on information that is not made available to me.

Limited actions to restore financial accountability reporting have been ineffective

5.19 In November 2008, the Government commissioned an Accounting Review Team to report on the state of financial reporting in core government. The Accounting Review Team's report was completed in December 2008. Government officials then asked for input from the four largest accounting firms regarding their ability to assist in the process of bringing Government's financial reporting up-to-date. An agreement was reached with one of those firms in March 2009. The Accounting Task Force commenced its work on July 1, 2009.

5.20 The Accounting Task Force has the following mandate:

... the Accounting Task Force is to substantiate the general ledger balances and prepare financial statements for each ministry/portfolio that has not submitted financial statements and/or an audit support binder to the Audit Office. The fiscal years are to be addressed sequentially such that each fiscal year should be completed for all ministries/portfolios prior to advancing to the next year as opposed to addressing the situation in a ministry by ministry fashion for all years....

5.21 The Accounting Task Force began their work with a complement of six government employees and what was anticipated to be an average of six contractors over an eighteen month period (actual contractor monthly support was to range from a low of four to a high of ten individuals over the eighteen month period). Subsequent to the onset of the project, the task force was asked to complete its work by April 2010 rather than



December 2010 as originally planned; accordingly, the contract with the firm was modified to accelerate the provision of resources such that an average of eleven contractors would be provided over a ten month period (actual support was to range from a low of seven to a high of twelve individuals over the ten month period).

5.22 After operating for nearly eight months and consuming \$952,000 to the end of January 2010, the Task Force has gone into seven of the thirteen portfolios and ministries and assisted them in cleaning up their accounts in order that they may be audited. The initial focus of the Task Force was on addressing the 2004/05 accounting deficiencies. The Task Force has informed us that they completed this work in February 2010. Currently, the Task Force is addressing accounting deficiencies for the 2005/06, 2006/07 and 2007/08 fiscal years.

5.23 In the recent meetings my audit staff has had with officials from the Ministry of Finance, Tourism and Development, we have been provided with some of the accounting information to conduct our audit of the 2004/05 EPS financial statements.

5.24 Clearly, the timeframes set by the Public Accounts Committee for the submission of all portfolio and ministry financial statements and other financial reports necessary for an audit by April 30, 2010 and to be reported to the Legislative Assembly will need to be reconsidered.

5.25 To restore financial accountability throughout the Cayman Islands Government, there are several areas that need to be considered when looking at what needs to be done. The work of the Task Force has been focused on getting the accounting done and the preparation of audit schedules for 2004/05 and 2005/06 in some ministries and portfolios that requested assistance. As the information being worked on is now so old and the quality of the financial systems and practices so poor for those years, it is very questionable how useful the information will be to provide accountability for government operations in those years.

5.26 Therefore, we assessed the work of the Task Force to be of limited value as the scope and nature of their work was so narrow and their results to date to be of limited use for achieving financial accountability.

5.27 Recommendation: The Ministry of Finance, Tourism and Development should review the nature and scope of the work being performed by the Accounting Task Force and consider using the resources to provide the Legislative Assembly with more current and credible financial information from the portfolios and ministries.

Ministry of Finance, Tourism and Development Response: *The Accounting Task Force is diligently working towards correcting the accounting deficiencies to allow for the consolidation of the financial statements so that it can be audited and ultimately reviewed by the Legislative Assembly in a timely fashion. However the Accounting Task Force has encountered a magnitude of challenges and issues which are preventing timely resolution and production of the reports. These challenges and issues include the lack of*



support for transactions, the lack of internal controls, policies, procedures and oversight, the unavailability of CFOs to respond to queries, the cumbersome manner of securing the necessary permissions to view each ministry's IRIS data, and the consolidation of the Government's financial statements. Without the proper teeth in the PMFL to enforce sanctions on ministries/portfolios for non-delivery and non-compliance, the Ministry of Finance and in turn the Accounting Task Force cannot produce credible and timely financial information. The Ministry of Finance does not have authority to enforce this lack of reporting and therefore cannot produce consolidated financial information if Chief Officers do not willingly play their part in the reporting process, as specified under the PMFL.

Why this unacceptable situation is not being fixed

5.28 While it is a relatively easy job for me to assess the current state of financial accountability reporting in the Cayman Islands Government in previous sections of this Report, I was also alert for the underlying causes for why this unacceptable situation is not being fixed. In doing so, I found three key issues; a lack of strategic direction, a governance framework that was not working well and an absence of leadership.

5.29 Strategic direction is lacking: As mentioned earlier, financial statements and the annual reports that contain them need to be timely and credible in order for them to be of value to decision makers and the public. Annual financial statements provide a full accounting of the revenues, expenses, assets and liabilities of government entities. Annual reports, on the other hand, include additional information about how the entity used public funds. Together, these two reports provide invaluable information about the stewardship of public resources. They also provide the means for the Legislative Assembly and the public to hold government officials accountable for their plans.

5.30 The Government is facing significant challenges to produce financial accountability reports going back to 2004/05 and must consider how these documents will be used if they are produced. I believe the Government needs to assess the value of producing this kind of historic information in the format required by the PMFL. Presently, the PMFL requires that financial statements and output statements be prepared by ministries and portfolios every year and then have them audited by my Office. While there can be no debate that some form of financial accounting must still occur, the value of producing and auditing output statements for accounts that are several years in arrears is less clear.

5.31 Once tabled, financial reports should be reviewed and challenged by the Members of the Legislative Assembly. Simply tabling a report and putting it on a shelf does not mean that financial accountability has occurred. There would be no value to anyone to do this.

5.32 In my opinion, there would be little value in providing information to Members of the Legislative Assembly that would allow them to challenge how money was spent four



years ago or longer. However, current legislation requires that output statements be prepared and audited. I believe that the current legislative requirements should be reviewed to determine if the production of output reports would be useful in the current situation. Such a review might consider the introduction of a short term suspension of output accounting until the accounts are up to date. We have suggested such an approach to the Government and I have been informed that it is currently under review.

5.33 Recommendation: I recommend that the Government consider its many options, including possible changes to the legislation, to develop a more strategic approach that will bring the accounts up to date as quickly as possible.

Ministry of Finance, Tourism and Development response: *The Ministry of Finance has proposed for a transition period to be included in the PMFL that will relax the reporting requirements and allow only the reporting of financial statements until the 2016/17 financial year at which time full quarterly and annual reporting will resume as specified under sections 28 and 29 of the PMFL. This transition period, which will soon be considered by Cabinet, will allow ministries and portfolios to not only catch up with their outstanding annual reports but to also develop appropriate financial systems and policies and procedures to prevent this situation from re-occurring in the future. The Ministry of Finance will also consider proposing to Cabinet that the PMFL include sanctions to be levied against Chief Officers for non-compliance with the PMFL requirements.*

5.34 Governance framework is broken: A well-functioning governance framework means that there are clear roles and responsibilities to ensure there is appropriate accountability for the use of government resources. The framework from a financial reporting perspective would ensure that everyone, from the most senior of government bodies such as the Legislative Assembly, through to the official who enters data into the accounting system understands their respective roles and can be held accountable for their performance ensuring that, to the extent possible, there is value-for-money for every dollar spent in providing effective financial reporting.

5.35 Government officials have informed me that they believe this governance framework is broken and that the legislation and regulations around public management and finance are an impediment for them to take the corrective action they believe necessary to restore financial accountability.

5.36 For example, government officials believe that the current governance framework designed in the PMFL is missing the roles and responsibilities of functional leadership for financial management and reporting. According to senior government officials, this missing piece of the framework precludes the kind of management and co-ordination necessary to ensure financial reporting requirements are met by government entities. Put simply, the Chief Officer for the Ministry of Finance, Tourism and Development (Public Finance) cannot consolidate information that she has not received from individual ministries and portfolios. Government officials also provided other examples of where



they believe the current governance framework needs to be changed to ensure there are fewer impediments to effective financial reporting.

5.37 One might ask, why does the budgetary process of the Government work more effectively than the financial reporting process with the same broken governance framework? We believe that the answer to this question is quite obvious. It is in the interest of government entities to get as many resources as possible to carry out their mandates and if they don't subscribe to the process set out by Finance officials and meet all the requirements and deadlines, they simply do not get funding. There is no such consequence for not reporting financial results. Consider how much more accountable government ministries and portfolios would be, as well as statutory authorities and government companies, if there was such a tremendous consequence for not meeting the requirements of the PMFL for financial reporting and preparing annual reports for the Legislative Assembly.

5.38 Recommendation: I recommend that the Government take immediate action to review and make the necessary changes to the governance framework for financial accountability reporting.

Ministry of Finance, Tourism and Development response: *Currently the Ministry of Finance is preparing a proposal to Cabinet to centralize the core Government's accounting function, under the Ministry of Finance, in order to improve the existing governance framework for financial accountability reporting. Under this proposal, Chief Officers will still be held accountable for the financial results of their ministry/portfolio to ensure ownership and accountability in the reporting process.*

5.39 Leadership is absent: In my 2008 Report, I stopped short of recommending that the Financial Secretary take responsibility for correcting the problems that existed at the time. I didn't make this recommendation because I believed it would be clear in everyone's mind that fixing this problem needed government-wide commitment, someone taking responsibility and strong leadership.

5.40 In 2010, I found once again very little evidence of commitment and leadership with regard to addressing this problem. While, I believe it should be the Chief Officer of the Ministry of Finance, Tourism and Development (Public Finance) who should be responsible for developing and implementing an action plan to achieve financial accountability for the Government of Cayman Islands, I found there were critical governance issues preventing this from happening.

5.41 Without clear leadership on this matter, it is my belief that this problem has little or no chance of getting addressed and corrected in a timely fashion. Taking actions such as making effective and timely changes to the accounting systems; providing clear and concise guidance on accounting and financial reporting procedures; assessing and monitoring the effectiveness of accounting controls; training and development of people to do the work; developing model financial statements that meet current accounting



standards; and ensuring the capacity of individuals to effectively perform key responsibilities are all important areas that need this kind of leadership. We found that no one is doing this today.

5.42 While it is still the responsibility of every Chief Officer and Chief Financial Officer to carry out their respective roles in complying with their legal responsibilities to prepare timely annual reports and have them tabled in the Legislative Assembly, there will likely continue to be unacceptable progress toward achieving a reasonable state of financial accountability until the right person with the necessary authority and resources takes responsibility to address this problem.

5.43 Normally, when there is an initiative as big and challenging as the one facing the Government of the Cayman Islands with respect to bringing financial accountability to an acceptable condition, I would have expected that there would be an oversight body involved in reviewing the progress made as well as being in a position to provide strategic direction and the necessary resources to accomplish the task. We did not find this kind of oversight in place for this initiative.

5.44 Recommendation: I recommend that the Government appoint a leader that would have as their priority the development of an operational plan to achieve financial accountability for the Cayman Islands Government in accordance with the *Public Finance and Management Law* and report progress at least quarterly to the Legislative Assembly.

Ministry of Finance, Tourism and Development response: *The Ministry of Finance would welcome the assignment of this leadership role provided that this role is assumed within the context of an enhanced governance structure that will hold Chief Officers accountable for the non-delivery of their financial information.*



Conclusion:

6.01 As noted throughout this Report, the goal of achieving financial accountability has been effectively absent from actions taken by the Government since my last Report. I said in 2008 that the Government of the Cayman Islands needed to have timely and credible financial information to operate effectively. Without that information, the Government cannot manage its affairs and demonstrate that it is making the best financial decisions on behalf of its citizens. While there has been a lot of talk about bringing the accounts up to date, very little has been accomplished in this regard. In fact, if the Government continues on the current path, it will be several years before the accounting activities of the Government are up to date. This is unacceptable.

6.02 Given the direction of the Legislative Assembly, the immediate goal for the officials in the Cayman Islands Government should be to achieve financial accountability. By that I mean the production of *timely* annual reports that contain *credible* financial information that is *analyzed* by the Legislative Assembly.

6.03 Everyone has a role to play in providing the type of financial accountability envisioned in the PMFL, including the Legislative Assembly and the Public Accounts Committee. This means that even when the few annual reports that are tabled in the Legislative Assembly, we would have expected that there was a process in place to review them and challenge the results with the appropriate managing directors and chief officers. This has not been happening.

6.04 I believe the recommendations in this Report can provide the Government with a means to take the necessary action to restore financial accountability to the operations of the Government.



APPENDIX 1: ABOUT THE AUDIT

Audit objectives:

The objectives of this audit were to assess and report on the:

- current status of financial accountability reporting; and
- actions taken by the Government to the recommendation in the 2008 Report.

Audit criteria:

1. The Government of the Cayman Islands should have the management framework in place to bring financial accountability reporting up to an acceptable level and in compliance with the *Public Management and Finance Law* as soon as possible.
2. A good financial function normally has the following interconnected characteristics:
 - It produces **credible** financial information in accordance with **relevant** accounting standards that is **understandable, useful**, and available on a **timely** basis.
 - The financial information is subjected to an **analysis** by the people in the accounting function, with resulting advice integrated into the management decision-making process.
 - The financial information is assembled with **efficiency**, using technology to the greatest extent possible.

Definition of credible financial information

Financial information produced by the government, both for internal use and for publication externally, should reflect the financial reality of the organization. Put simply, users must be able to believe it. Credible financial information in the public sector is achieved through the consistent application of generally accepted accounting principles together with meeting legal requirements such as a national financial accountability law. Credibility is also evidenced through an opinion, without qualification or reservation, from an independent auditor. Generally accepted accounting principles provide objective standards of good accounting and reporting practice that organizations can use to prepare their financial statements and that auditors can use to assess them.

My criteria for this audit are derived from past work by other legislative audit offices.



Audit approach:

My approach for the conduct of this was as follows:

- Summarize and assess financial reporting information maintained by the Office of the Auditor General;
- Review and assess plans and actions taken by the Government
- Confirm information with entities; and
- Conduct interviews of senior government officials.

Clearance:

I would like to thank the Chief Officer, Ministry of Finance, Tourism and Development (Public Finance) and her staff for their co-operation throughout this audit.



APPENDIX 2: STATUS OF FINANCIAL ACCOUNTABILITY REPORTING FOR STATUTORY AUTHORITIES AND GOVERNMENT COMPANIES

Entity	Year-end	2008 REPORT		2010 UPDATE	
		Date Audit Completed or Progress	Annual Report Tabled in LA	Date Audit Completed or Progress	Annual Report Tabled in LA
Cayman Airways Limited	30-Jun-03	25-Apr-05	No	25-Apr-05	No
	30-Jun-04	In progress	No	31-Jul-08	No
	30-Jun-05	In progress	No	Substantially complete	No
	30-Jun-06	In progress	No	In progress	No
	30-Jun-07	In progress	No	In progress	No
	30-Jun-08			Not started	No
	30-Jun-09			Not started	No
Cayman Islands Airport Authority	30-Jun-05	14-Dec-07	No	14-Dec-07	No
	30-Jun-06	Substantially complete	No	30-Jun-08	No
	30-Jun-07	In progress	No	Substantially complete	No
	30-Jun-08			In progress	No
	30-Jun-09			Not started	No
Cayman Islands Development Bank	30-Jun-03 (6 month audit)	16-Feb-04	No	16-Feb-04	No
	30-Jun-04	21-Mar-05	Yes	21-Mar-05	Yes
	30-Jun-05	15-Mar-07	No	15-Mar-07	No
	30-Jun-06	Substantially complete	No	19-Feb-09	No
	30-Jun-07	In progress	No	10-Aug-09	No
	30-Jun-08			Substantially complete	No
	30-Jun-09			Not started	No



Entity	Year-end	2008 REPORT		2010 UPDATE	
		Date Audit Completed or Progress	Annual Report Tabled in LA	Date Audit Completed or Progress	Annual Report Tabled in LA
CINICO	30-Jun-04	23-Nov-04	No	23-Nov-04	N/A
	30-Jun-05	11-Oct-06	No	11-Oct-06	Yes
	30-Jun-06	15-Dec-06	No	15-Dec-06	Yes
	30-Jun-07	31-Oct-07	No	31-Oct-07	Yes
	30-Jun-08			23-Jan-09	Yes
	30-Jun-09			29-Oct-09	No
Cayman Islands Stock Exchange	30-Jun-03	16-Feb-04	No	16-Feb-04	Yes
	30-Jun-04	07-Jan-07	No	07-Jan-07	No
	30-Jun-05	17-Oct-05	No	17-Oct-05	Yes
	30-Jun-06	06-Dec-06	No	06-Dec-06	No
	30-Jun-07	4-July-08	No	04-July-08	No
	30-Jun-08			02-Jun-09	No
	30-Jun-09			In progress	No
Cayman Islands National Museum	31-Dec-02	19-May-07	No	19-May-07	No
	30-Jun-04	In progress	No	In progress	No
	30-Jun-05	Not started	No	Not started	No
	30-Jun-06	Not started	No	Not started	No
	30-Jun-07	Not started	No	Not started	No
	30-Jun-08			Not started	No
	30-Jun-09			Not started	No



Entity	Year-end	2008 REPORT		2010 UPDATE	
		Date Audit Completed or Progress	Annual Report Tabled in LA	Date Audit Completed or Progress	Annual Report Tabled in LA
Cayman National Cultural Foundation	31-Dec-01	29-Sep-02	No	29-Sep-02	No
	30-Jun-03 (18 month audit)	In progress	No	21-July-09	No
	30-Jun-04	In progress	No	7-Jan-10	No
	30-Jun-05	Not started	No	In progress	No
	30-Jun-06	Not started	No	In progress	No
	30-Jun-07	Not started	No	In progress	No
	30-Jun-08			Not started	No
	30-Jun-09			Not started	No
	Children & Youth Services (CAYS)	30-Jun-03	04-Oct-07	No	01-Apr-04
30-Jun-04		04-Oct-07	No	Substantially complete	No
30-Jun-05		04-Oct-07	No	Substantially complete	No
30-Jun-06		04-Oct-07	No	Substantially complete	No
30-Jun-07		Not started	No	Substantially complete	No
30-Jun-08				Substantially complete	No
30-Jun-09				In progress	No
Civil Aviation Authority	31-Dec-00	19-Jun-02	No	19-Jun-02	No
	31-Dec-01	09-Dec-02	No	09-Dec-02	No
	31-Dec-02	05-Oct-05	No	05-Oct-05	No
	30-Jun-03	05-Oct-05	No	05-Oct-05	No
	30-Jun-04	21-Sep-06	No	21-Sep-06	No
	30-Jun-05	Substantially complete	No	13-May-08	Yes
	30-Jun-06	Not started	No	19-Mar-09	No
	30-Jun-07	Not started	No	20-Nov-09	No
	30-Jun-08			Substantially complete	No
	30-Jun-09			Not started	No



Entity	Year-end	2008 REPORT		2010 UPDATE	
		Date Audit Completed or Progress	Annual Report Tabled in LA	Date Audit Completed or Progress	Annual Report Tabled in LA
Court Funds Office	31-Dec-01	Substantially complete	No	Substantially complete	No
	31-Dec-02	Substantially complete	No	Substantially complete	No
	30-Jun-03 (6 mth audit)	Substantially complete	No	Substantially complete	No
	30-Jun-04	In progress	No	Substantially complete	No
	30-Jun-05	In progress	No	In progress	No
	30-Jun-06	In progress	No	In progress	No
	30-Jun-07	In progress	No	In progress	No
	30-Jun-08	In progress	No	Not started	No
	30-Jun-09	In progress	No	Not started	No
Electricity Regulatory Authority	30-Jun-05 (2 mth audit)	09-Aug-07	No	09-Aug-07	No
	30-Jun-06	09-Aug-07	No	09-Aug-07	No
	30-Jun-07	In progress	No	22-Jul-08	No
	30-Jun-08	In progress	No	15-Oct-08	No
	30-Jun-09	In progress	No	19-Nov-09	No
Health Services Authority	30-Jun-03	12-Aug-05	No	12-Aug-05	No
	30-Jun-04	F/S not to be submitted	No	F/S not submitted	N/A
	30-Jun-05	F/S not to be submitted	No	F/S not submitted	N/A
	30-Jun-06	In progress	No	27-Jan-10	No
	30-Jun-07	In progress	No	27-Jan-10	No
	30-Jun-08	In progress	No	In Progress	No
30-Jun-09	In progress	No	Not Started	No	



Entity	Year-end	2008 REPORT		2010 UPDATE	
		Date Audit Completed or Progress	Annual Report Tabled in LA	Date Audit Completed or Progress	Annual Report Tabled in LA
Information and Communications Technology Authority	30-Jun-2003 (13 mth audit)	15-Dec-05	Yes	15-Dec-05	Yes
	30-June-04	15-June-06	Yes	15-June-06	Yes
	30-Jun-05	02-Nov-06	No	02-Nov-06	No
	30-Jun-06	04-Jul-07	No	04-Jul-07	No
	30-Jun-07	06-Mar-08	No	06-Mar-08	No
	30-Jun-08 30-Jun-09			29-Sep-08 Substantially complete	No No
Maritime Authority	30-Jun-06	01-Mar-07	No	01-Mar-07	Yes
	30-Jun-07	Substantially complete	No	18-Apr-08	Yes
	30-Jun-08			01-Dec-08	No
	30-Jun-09			Substantially complete	No
Monetary Authority	30-Jun-03	30-Oct-03	No	30-Oct-03	Yes
	30-Jun-04	12-Jan-05	Yes	12-Jan-05	Yes
	30-Jun-05	08-Nov-05	Yes	08-Nov-05	Yes
	30-Jun-06	31-Oct-07	No	31-Oct-07	Yes
	30-Jun-07	Substantially complete	No	26-Aug-08	Yes
	30-Jun-08			16-Jan-09	Yes
	30-Jun-09			14-Dec-09	Yes



Entity	Year-end	2008 REPORT		2010 UPDATE	
		Date Audit Completed or Progress	Annual Report Tabled in LA	Date Audit Completed or Progress	Annual Report Tabled in LA
National Drug Council	30-Jun-02	15-Jan-03	No	15-Jan-03	Yes
	30-Jun-03	09-Jun-04	No	09-Jun-04	Yes
	30-Jun-04	24-May-07	No	24-May-07	Yes
	30-Jun-05	24-May-07	No	24-May-07	Yes
	30-Jun-06	12-Feb-08	No	12-Feb-08	Yes
	30-Jun-07	In progress	No	19-Feb-09	Yes
	30-Jun-08			In progress	No
	30-Jun-09			Not started	No
National Gallery	31-Dec-02	17-May-06	No	17-May-06	No
	30-Jun-04 (18 mth audit)	17-May-06	No	17-May-06	No
	30-Jun-05	03-Oct-07	No	03-Oct-07	No
	30-Jun-06	03-Oct-07	No	03-Oct-07	No
	30-Jun-07	In progress	No	07-Apr-09	No
	30-Jun-08			Planning started	No
	30-Jun-09			Planning started	No
National Housing Development Trust	30-Jun-05	05-Jul-07	No	05-Jul-07	No
	30-Jun-06	Substantially completed	No	14-Apr-08	No
	30-Jun-07	In Progress	No	12-Dec-08	No
	30-Jun-08			12-Feb-09	No
	30-Jun-09			Not started	No
National Roads Authority	30-Jun-05	30-Aug-06	No	30-Aug-06	No
	30-Jun-06	07-Dec-06	No	07-Dec-06	No
	30-Jun-07	15-Jan-08	No	15-Jan-08	No
	30-Jun-08			25-Nov-08	No
	30-Jun-09			21-Dec-09	No



Entity	Year-end	2008 REPORT		2010 UPDATE	
		Date Audit Completed or Progress	Annual Report Tabled in LA	Date Audit Completed or Progress	Annual Report Tabled in LA
Port Authority	31-Dec-03	03-Dec-04	No	03-Dec-04	No
	30-Jun-04	24-Oct-05	No	24-Oct-05	No
	30-Jun-05	31-Oct-06	No	31-Oct-06	No
	30-Jun-06	Substantially complete	No	14-Jan-09	No
	30-Jun-07	Not started	No	3-Sept-09	No
	30-Jun-08			Substantially complete	No
	30-Jun-09			Not started	No
Public Service Pensions Board	31-Dec-99	14-Mar-03	No	14-Mar-03	Yes
	31-Dec-00	21-Jul-04	No	21-Jul-04	Yes
	31-Dec-01	30-Sep-05	Yes	30-Sep-05	Yes
	31-Dec-02	09-May-06	Yes	09-May-06	Yes
	31-Dec-03	10-Aug-06	Yes	10-Aug-06	Yes
	31-Dec-04	09-Jul-07	Yes	09-Jul-07	Yes
	30-Jun-05	Substantially complete	No	11-Jun-08	No
	30-Jun-06	Not started	No	01-Dec-08	No
	30-Jun-07	Not started	No	7-Jul-09	No
	30-Jun-08			In progress	No
30-Jun-09			Not started	No	
Segregated Insurance Fund	30-jun-05 (16 month audit)	13-Feb-06	Yes	13-Feb-06	No
	30-Jun-07	31-Mar-09	No	31-Mar-09	No
	30-Jun-08			13-Oct-09	No
	30-Jun-09			In progress	No



Entity	Year-end	2008 REPORT		2010 UPDATE	
		Date Audit Completed or Progress	Annual Report Tabled in LA	Date Audit Completed or Progress	Annual Report Tabled in LA
Tourism Attraction Board	31-Dec-98	31-Jul-02	No	31-Jul-02	No
	31-Dec-99	31-Jul-02	No	31-Jul-02	No
	31-Dec-00	18-Feb-03	No	18-Feb-03	No
	31-Dec-01	02-Sep-03	No	02-Sep-03	No
	31-Dec-02	27-Feb-04	No	27-Feb-04	No
	30-jun-03 (6 mth audit)	10-Nov-05	No	10-Nov-05	No
	30-Jun-04	12-Jun-07	No	12-Jun-07	No
	30-Jun-05	In progress	No	20-Nov-08	No
	30-Jun-06	In progress	No	Substantially complete	No
	30-Jun-07	Not started	No	In progress	No
	30-Jun-08			Not started	No
30-Jun-09			Not started	No	
Turtle Farm Ltd.	30-Jun-04	07-Nov-05	No	07-Nov-05	No
	30-Jun-05	Substantially complete	No	10-Apr-08	No
	30-Jun-06	In progress	No	09-Oct-09	No
	30-Jun-07	Not started	No	Not started	No
	30-Jun-08			Not started	No
	30-Jun-09			Not started	No



Entity	Year-end	2008 REPORT		2010 UPDATE	
		Date Audit Completed or Progress	Annual Report Tabled in LA	Date Audit Completed or Progress	Annual Report Tabled in LA
University College of the Cayman Islands	31-Dec-02	15-Jan-04	No	15-Jan-04	No
	30-jun-03 (6 month audit)	28-Jan-05	No	28-Jan-05	No
	30-Jun-04	4-Oct-05	No	4-Oct-05	Yes
	30-Jun-05	02-Jun-06	No	02-Jun-06	Yes
	30-Jun-06	06-Mar-07	No	06-Mar-07	No
	30-Jun-07	Substantially complete	No	Substantially complete	No
	30-Jun-08			Not started	No
	30-Jun-09			Not started	No
Water Authority	31-Dec-01	31-Jul-02	No	31-Jul-02	Yes
	31-Dec-02	18-Jun-03	No	18-Jun-03	Yes
	30-Jun-03 (6 mth audit)	21-Jan-04	No	21-Jan-04	No
	30-Jun-04	19-Jan-05	No	19-Jan-05	No
	30-Jun-05	21-Dec-05	No	21-Dec-05	Yes
	30-Jun-06	17-Jan-07	No	17-Jan-07	Yes
	30-Jun-07	Substantially complete	No	09-Oct-08	Yes
	30-Jun-08			17-Dec-08	Yes
30-Jun-09			18-Nov-09	No	

Categorization of statutory authorities and government companies with respect to financial accountability requirements of the PMFL:

- White: Generally compliant
- Grey: Significant progress towards compliance
- Black: Not compliant



**APPENDIX 3: PRESS RELEASE FROM THE FINANCIAL SECRETARY
18 JULY 2008**

RESPONSE ON GOVERNMENT SPENDING

The Portfolio of Finance and Economics wishes to make clear that contrary to a media report the Cayman Islands government does not have \$1.5 billion in outstanding accounts.

In an article headlined *Auditor: \$1.5 Billion Outstanding*, published in the *Cayman Net News* on 17 July, Auditor General, Dan Duguay was quoted saying that annual reports accounting for spending by various entities are in arrears, with some being as much as three years behind.

The newspaper refers to a soon-to-be-released report by Mr. Duguay in which he comments on outstanding annual reports for government entities. Mr. Duguay was quoted as noting that while money is given to these public organisations for 2009, there is yet to be annual report information on the 2004-05 year.

Financial Secretary, Hon. Kenneth Jefferson, observed that the report is not yet a public document. He pointed out that had the proper course of action been followed, the report would have been presented to the Honourable Speaker of the Legislative Assembly - at which time it would become a public document.

Mr. Jefferson commented that any utility of the article is easily lost because the premature release of details in the Auditor General's report has resulted in an unbalanced article of unwarranted gloom and doom.

He said it is incorrect to say that government is yet to account for \$1.5 billion in budgetary expenditure since the 2004-05 year.

The *Public Management and Finance Law* requires Annual Reports of government and public entities to be presented in the Legislative Assembly. Annual Reports consist of two main parts: audited financial statements and an audited statement of outputs by a government Ministry or Portfolio or other public entity.

Mr. Jefferson said that the traditional financial statements component of annual reports have been thoroughly examined by the Auditor General's office without significant difficulties or delay. However, the audits of outputs statements have taken a significant period of time because the preparation and audit of such statements is new to public officials - including those in the Auditor General's office. The Cayman Islands have gone the further step of Output Reporting - something only a handful of countries in the world do, or are attempting to do. Under the previous cash basis of



Governmental reporting only financial statements were presented to the Legislative Assembly.

"Whilst we are generally in a position to present the financial statements of government and public entities to the Legislative Assembly, the aforementioned Law dictates that the audited financial statements must be accompanied by audited output statements: the latter is delaying the former and the end result is an overall delay," the Financial Secretary stated.

Mr. Jefferson pointed out that prior to any money being released to government entities, the proposed appropriations are examined by Finance Committee of the Legislative Assembly. He noted that at the time of such examinations, the relevant officials are called upon to explain previous spending and to give reason for changes - if any - in the proposed new expenditure.

He said this parliamentary mechanism ensures that lawmakers are at all times aware of government spending.

The Auditor General's report: *'The State of Financial Accountability Reporting'* addresses compliance of government entities with the *Public Management and Finance Law*. This law, which since the 2004-05 financial year moved government accounting from a cash based to an accrual system, calls for annual reports by 13 ministries, portfolios and all statutory authorities and Government companies. These reports are to include financial statements and submissions on the entity outputs, goods or services rendered.

Mr. Jefferson acknowledged that the reports are behind schedule, and credited this to government officials embarking on a new system of reportage that changes the way its business is done. He explained that it takes time for officials, including staff from the Audit Office, to learn and become competent in this new way of reportage.

He said that however, the lateness in submission of these reports does not mean that government is not accounting for money used.

He said that government appropriations are approved by the Legislative Assembly and the inclusion of financial statements in annual and supplementary budgets during the course of a year, make it clear to legislators how those approved funds have been used.

For further information contact: [George Alleyne](#)

APPENDIX 4: DESCRIPTION OF THE FINANCIAL ACCOUNTABILITY FRAMEWORK

I have provided a description of the Financial Accountability Framework to provide readers with an understanding of the basis for financial accountability as it is described in current legislation and regulations.

The model has four key elements. This audit focuses on how well the Government is doing in only two of the four elements. The first element that deals with the government budgetary process was not part of the scope of this audit. The last element of the framework concerns the role of the Legislative Assembly.

A description and assessment of the financial accountability framework are included in Figure 1:



Figure 1: Assessment of the financial accountability framework of the Cayman Islands Government

