



## **THE PORT AUTHORITY OF CAYMAN ISLANDS**

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**Report to those charged with governance on the 2023 audit**

**May 2024**

***To help the public service  
spend wisely***

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# REPORT TO THOSE CHARGED WITH GOVERNANCE

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## INTRODUCTION

1. We have completed our audit of the 31 December 2023 financial statements of the Port Authority of the Cayman Islands (The “Port Authority” or “Authority”). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Port Authority in sufficient time to enable appropriate action. The matters we are required to communicate under ISAs include:
  - auditors responsibilities in relation to the audit
  - the overall scope and approach to the audit, including any expected limitations, or additional requirements
  - relationships that may bear on our independence, and the integrity and objectivity of our staff
  - expected modifications to the audit report
  - significant findings from our audit
2. This report sets out for the consideration of those charged with governance those matters arising from the audit of the financial statements for 2023 financial year that we consider are worthy of drawing to your attention, so that you can consider them before the financial statements are approved and signed.
3. This report has been prepared for the sole use of those charged with governance and we accept no responsibility for its use by a third party. Under the *Freedom of Information Law (2021 Revision)* it is the policy of the Office of the Auditor General to release all final reports proactively through our website: [www.auditorgeneral.gov.ky](http://www.auditorgeneral.gov.ky).

## AUDITORS RESPONSIBILITIES IN RELATION TO THE AUDIT

### AUDITOR’S RESPONSIBILITY UNDER INTERNATIONAL STANDARDS ON AUDITING

4. ISAs require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters and this report includes only those matters of interest which came to our attention as a result of the performance of our audit.

### RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

5. Management's responsibilities are detailed in the engagement letter to which this engagement was subject. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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## OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

6. While we have no responsibility to perform any audit work on other information, including forward looking statements, in documents containing audited financial statements, we shall read the other information contained in the Port Authority's annual report to consider whether such information is materially consistent with information appearing in the financial statements or our knowledge of the operations of the Port Authority. We have not reviewed any other documents containing audited financial statements.

## CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT

7. Information on the integrity and objectivity of the Office of the Auditor General and audit staff, and the nature and scope of the audit, were outlined in the Engagement Letter presented to the Port Director and follow the requirements of the ISAs. We are not aware of any impairment to our independence as auditors.

## AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATIONS

8. We have issued an unmodified opinion on the 2023 financial statements with an emphasis of matter on non-compliance with The Public Authorities Act (2020 Revision), Section 47 - Terms and conditions and remuneration of staff.
9. A summary of audit adjustments made to the financial statements is attached in Appendix 1. The total gross adjustments made amounted to \$2.38 Million comprised of audit adjustments of \$476.4 thousand and client adjustments of \$1.90 Million which resulted to an increase in net loss of \$301 thousand for the year ended 31 December 2023.

A summary of uncorrected misstatements identified by us during the audits is attached in Appendix 2. Management has determined these misstatements to be immaterial, both individually and in aggregate, to the financial statements taken as a whole. The total impact of these misstatements is a decrease of net assets by \$56.2 thousand.

10. As part of the completion of our audit we sought written representations from management on aspects of the accounts and judgments and estimates made.

## SIGNIFICANT FINDINGS FROM THE AUDIT

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### SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Port Authority's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Port Authority to make accounting

estimates and judgments about accounting policies and financial statement disclosures. Except as noted in our audit report, we are not aware of any areas where the significant accounting practices have changed from the previous year or are not consistent with general industry practice. In addition, we are not aware of any new or controversial accounting practices reflected in the Port Authority's financial statements.

12. Other details of any significant findings from the audit are included in Appendix 3, along with management's response.

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#### MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. Management has made significant judgments and estimates with regard to the following financial statement items:

- Depreciation of Fixed Assets
- Fair value of Property Plant and Equipment
- Fair value of Investment Property
- Provisions for expected credit losses
- Post-Employment Health Benefit Liability

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#### GOING CONCERN DOUBTS

14. The reporting of the post-employment liability had a significant impact on the financial results of the Port Authority. This led to the Port Authority reporting a total comprehensive loss of \$3.13 Million after recognizing an actuarial loss due to the re-measurement of the defined benefit obligation of \$948 thousand.

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#### MATERIAL WEAKNESSES IN INTERNAL CONTROL

15. We identified a number of significant matters relating to internal controls as part of our audit. See Appendix 3 for a detailed listing of these matters, along with management responses.

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#### FRAUD OR ILLEGAL ACTS

16. Applicable auditing standards recognize that the primary responsibility for the prevention and detection of fraud and compliance with applicable Acts and regulations rests with both those charged with governance of the entity and with management. It is important that management, with the oversight of those charged with governance; place a strong emphasis on fraud prevention and fraud deterrence. They are also responsible for establishing and maintaining controls pertaining to the entity's objective of preparing financial statements that are presented fairly, in all material respects, in accordance with the applicable financial reporting framework and managing risks that may give rise to material misstatements in those financial statements. In exercising oversight responsibility, those charged with governance should consider

the potential for management override of controls or other inappropriate influence over the financial reporting process.

17. As auditors, in planning and performing the audit, we are required to reduce audit risk to an acceptably low level, including the risk of undetected misstatements in the financial statements due to fraud. However, we cannot obtain absolute assurance that material misstatements in the financial statements will be detected because of such factors as the use of judgment, the use of testing, the inherent limitations of internal control and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature.

18. No fraud or illegal acts came to our attention as a result of our audit.

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#### SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

19. No serious difficulties were encountered in the performance of our audit.

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#### DISAGREEMENTS WITH MANAGEMENT

20. We have had no serious disagreements with management resulting from our audit.

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#### ANY OTHER SIGNIFICANT MATTERS

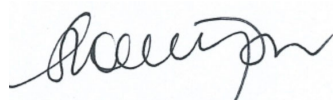
21. There were no other significant matters noted during the audit other than those disclosed in Appendix 3.

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#### ACKNOWLEDGEMENTS

22. We would like to thank the Port Authority staff for their help and assistance during the audit of this year's financial statements.

Yours Sincerely,



Sue Winspear, CPFA  
Auditor General

## APPENDIX 1 – SUMMARY OF ADJUSTED DIFFERENCES

### 1. Audit Adjustments

Acc No	Acc Name	Debit	Credit
01-15200-000-00	R.B.C. US\$ Current Account	9,324.56	
01-16100-000-00	Agent/Consignee Receivables		9,324.56
	<i>To correct a correction made in 2022 in error.</i>		
01-16301-000-00	Deposit / Advance on Expenses	3,413.50	
01-74560-300-00	Entertainment - Administration		3,413.50
	<i>To correct the expensed security deposit for the 2023 Christmas party</i>		
01-20200-000-00	Accruals	11,900.00	
01-72300-340-00	Legal Fees		11,900.00
	<i>Correcting accrual for legal fees</i>		
01-16150-000-00	Miscellaneous Receivables	37,308.52	
01-62370-000-02	Rental Income - RWT Shops		27,367.89
01-62390-000-02	Rental Income - RWT Common Area Maint		9,940.63
	<i>To accrue rental income not billed in 2023</i>		
01-62370-000-02	Rental Income - RWT Shops	12,568.47	
01-62390-000-02	Rental Income - RWT Common Area Maint		12,568.47
	<i>Reclassification of CAM fees to Rental income</i>		
01-17540-000-00	Other Prepaid Expenses		53,333.00
01-20100-000-00	Accounts Payable (A/P Control)	53,333.00	
	<i>To correct Accrued expenditure incorrectly classified as prepayment</i>		
01-70010-110-00	Salaries - Day Operations	3,782.88	
01-70010-120-00	Salaries - Night Operations	8,061.13	
01-20200-000-00	Accruals		11,844.01
	<i>Additional vacation accrual for two staff</i>		
01-12120-100-00	Acc Dep. Right of use G5	3,648.00	
01-31500-100-00	Lease Payable G5	10,227.00	
01-10120-100-00	Right of use G5		10,227.00
01-78120-100-00	Depreciation - G5		3,648.00
	<i>Entry to adjust G5 lease for change in interest rate</i>		
01-16500-000-00	Provision for Bad Debts		205,000.00
01-74650-100-00	Bad Debt	205,000.00	
	<i>To record DEC23 ADJ Provision per Expected Credit Loss calculation – IFRS 9</i>		
01-72100-300-00	Professional Fees - Administration	113,091.00	



Acc No	Acc Name	Debit	Credit
01-19000-000-00	Work In Progress - Capital Assets		113,091.00
	<i>To reclass capitalised WIP-capital assets to professional fees expense.</i>		
01-18310-000-07	Inventory of Forklift Tyres		2,446.16
01-71030-123-07	Repairs & Maintenance CDC Forklifts	2,446.16	
	<i>To correct translation error Recorded in USD amount.</i>		
01-18630-000-07	Inventory of Misc Shop Parts		2,263.5
01-71041-123-07	Parts - CDC Trucks	2,263.5	
	<i>To correct translation error Recorded in USD amount.</i>		
	<b>Subtotal</b>	<b>476,367.72</b>	<b>476,367.72</b>

## 2. Client Adjustments

Acc No	Acc Name	Debit	Credit
01-15150-000-00	R.B.C. CI\$ Current Account		279.17
01-16100-000-00	Agent/Consignee Receivables		40.60
01-50100-000-00	Cargo Dues	241.12	
01-50200-000-00	Cargo Handling	54.44	
01-50450-000-00	Trucking Fees	18.60	
01-62150-000-00	Finance Charges on Pastdue Cus	5.61	
03-16100-000-00	Agent/Consignee Receivables	87.81	
03-50100-000-00	Cargo Dues		65.31
03-50560-000-00	Reefer Plug Dues		22.50
	<i>To correct Various Port manager document variances</i>		
01-20100-000-00	Accounts Payable (A/P Control)	3,759.5	
01-72400-110-00	Miscellaneous - Day / Night Operations		3,759.5
	<i>To reverse the auctioneer's commission posted in error</i>		
01-70011-110-00	Overtime - Day Operations		1,449,579.43
01-70011-120-00	Overtime - Night Operations	1,449,579.43	
	<i>To reallocate wages for truckers &amp; Forklift operators from day ops to night ops</i>		
01-18100-000-11	Inventory of Harbour Drive Diesel		26,355.14
01-60200-000-11	Diesel Cost of Sales	39,018.28	
01-71064-123-07	Diesel Fleet Vehicles		12,663.14
	<i>Reversing JV# 4966 &amp; JV# 5151 and Reversal of refund coded to inventory in error</i>		
01-10120-000-00	Right of use G4		78,726
01-12120-000-00	Acc Dep. Right of use G4	78,726	
	<i>Entry to clear expired lease for G4</i>		

Acc No	Acc Name	Debit	Credit
01-10120-200-00	Right of use 14 BH P135		332,089.00
01-12120-200-00	Acc. Dep. 14 BH P135	332,089.00	
	<i>Entry to clear expired lease for 14 BH P135</i>		
01-18310-000-07	Inventory of Forklift tyres		225.50
01-71030-123-07	Repairs & Maintenance CDC Forklifts	225.50	
	<i>To reverse entry posted in error, based on quotation.</i>		
	<b>Subtotal</b>	<b>1,903,805.29</b>	<b>1,903,805.29</b>
	<b>TOTAL</b>	<b>2,380,173.01</b>	<b>2,380,173.01</b>

## Appendix 2 – SUMMARY OF UNADJUSTED DIFFERENCES

Ref no	Description	Assets	Liabilities	Equity	Income	Expenses
<b>Unrecorded - factual</b>						
1	To correct the difference between the AP schedule and the TB.	-	56,158.03	-	-	56,158.03
2	To correct the difference between the inventory balance movement between the count date to year-end and the TB.	48,749.05	48,749.05	-	-	
<b>Understated/(Overstated)</b>		<b>48,749.05</b>	<b>104,907.08</b>	<b>-</b>	<b>-</b>	<b>56,158.03</b>

### APPENDIX 3 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Audit Finding	Risk/implication	Management Response	Implementation Date
<p><b>Non-compliance with section 18(1) of the Public Authorities Act.</b></p> <p>Section 18(1) requires that a board may appoint a person who is not a board member to be its recording secretary.</p> <p>A Non-Executive Director was the recording secretary for meeting #517 instead of the employed Board Secretary or another member of staff.</p> <p>We were told that the Board Secretary was absent from work on approved leave. However, there were no formal leave records.</p>	<p><b>Risk/ Implication</b></p> <ul style="list-style-type: none"> <li>Potential conflicts of interest and Board member acting in an operational capacity.</li> <li>Employee being absent from work without approval</li> </ul> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>The board should ensure compliance with PAA by having a non-board member as the board's recording secretary at all times.</li> <li>Management should ensure that any employee's absence from work is approved and records are kept.</li> </ul>	<p>The Board of the Port Authority notes the auditor general's comment and will comply with the requirements of the Act. Any employee's absence from work will be correctly documented.</p>	<p>Immediately</p>
<p><b>Non-compliance with Sec 52 (1) Public Management and Finance Act (2020 Revision)</b></p> <p>The annual report for the year ended 31 December 2023 was not submitted on time.</p> <p>Each statutory authority or government company is required to prepare an annual report for the year and submit it to the Auditor General for review within two months after the end of each financial year. PACI submitted the annual report on 8<sup>th</sup> May 2024.</p>	<p><b>Risk/Implication:</b></p> <ul style="list-style-type: none"> <li>Lack of transparency during the audit process as relevant information contained in the annual report may be missed.</li> <li>The annual report may not be tabled in the Parliament within six months after the year-end</li> </ul> <p><b>Recommendation:</b></p> <p>Management should ensure that annual reports are submitted to the Auditor General for review</p>	<p>The annual report was completed in time for submission on 22 February 2024 when the financial statements were submitted. However, due to an internal oversight, it was not submitted to the OAG. Emails have been shared with the OAG that verified that the report was ready.</p>	<p>February 2025</p>

	by the statutory deadline of 28 February each year.	Management will put in place checks to ensure that this will not recur.	
<p><b>Acting positions for more than twelve months</b></p> <p>We noted that nine employees had been acting in roles for over 12 months without advertising.</p> <p>The Port Authority does not have an acting policy.</p> <p>In the absence of a policy, the Cayman Islands Government's (CIG) guidance should be used as best practice. The CIG Personnel Regulations (2022 Revision) Sec 31 (2) state that if the period of acting is to be longer than twelve months, or if a staff member appointed under paragraph (1) has already acted in the position for a period of at least twelve months, the position shall be advertised as an interim position and filled under the requirements of section 41(2) to (9) of the Public Service Management Law (2018 Revision).</p>	<p><b>Risk/Implication:</b></p> <p>The appointment of personnel in an acting capacity beyond the 12-month limit denies potential applicants the opportunity to compete and fill the position on a long-term basis. In addition, acting capacity may be unable to make long-term decisions due to uncertain service duration.</p> <p><b>Recommendation:</b></p> <p>Management should ensure that acting appointments last no more than twelve months and that positions are advertised.</p>	<p>This is currently being addressed.</p>	<p>December 2024</p>
<p><b>Excessive Christmas party expenses</b></p> <p>The 2023 Port Authority's Christmas party and award ceremonies cost <b>CI\$45,721.70</b>, which the board approved at its 11 November 2023 meeting. This represents <b>CI\$254 (2022: CI\$341)</b> per person.</p>	<p><b>Risk/Implication:</b></p> <p>There is a reputational risk to the Authority the expenditure is perceived as excessive and does not provide value for money in the use of public funds.</p> <p><b>Recommendation:</b></p>	<p>The auditor general was informed that the function was a combined awards ceremony and Christmas dinner.</p> <p>The Christmas stipend of CI\$40 per person does not apply in this situation.</p>	

<p>We raised a similar issue about the expenditure on the Christmas party in our 2022 audit. We were told that the annual award ceremony was introduced in 2023 for the first time.</p> <p>The Cayman Islands Government approved CI\$40 per person as a Christmas stipend for 2023 for the civil service. The Port Authority's spending is deemed excessive in the context of the Government's expectations.</p>	<p>The Port Authority should spend wisely to ensure expenses paid for entertainment are reasonable and aligned with the average spending approved by the government.</p>	<p>The board will continue to approve such expense before any commitments are made</p>	
<p><b>Lack of policy on funeral expenses (re-iteration from prior year)</b></p> <p>The Authority incurred CI\$8,796 for funeral expenses in 2023. However, there was no policy to determine the criteria and cost for such expenditure. The amount paid was determined based on the 2022 funeral expenses paid by the Port Authority to another employee.</p>	<p><b>Risk/Implication:</b> The lack of a policy creates a risk of unreasonable staff expectations. It also creates a risk of inconsistent treatment which may result in staff disengagement.</p> <p><b>Recommendation:</b> Management should develop a policy on funeral expenses as soon as possible.</p>	<p>A Funeral policy was approved by the Board in April 2024</p>	<p>April 2024</p>
<p><b>Errors in recording the value of inventory due to currency translation.</b></p> <p>Two USD invoices were not converted into KYD while recording the inventory purchased during the year, causing a total error of \$4,709.64.</p>	<p><b>Risk/Implication:</b> Misstatement of inventory balance in the financial statements.</p> <p><b>Recommendation:</b> Management should review posted transactions periodically to capture any errors in inventory.</p>	<p>Agreed. Periodic reconciliations will be conducted to capture any errors.</p>	<p>Q4 of 2024</p>

<p><b>Exceptions around night operation remunerations.</b></p> <p><i>Night Shift workers are paid time and a half, contrary to employment contracts</i></p> <p>We noted that employees who work the night shift are paid X1.5 of their agreed wage rate in employment contracts. Management told us that this arrangement has been in place since 2004. However, there is no written policy or board approval for the night shift pay arrangements.</p> <p><i>Night operation wages are recorded as overtime.</i></p> <p>Employment contracts indicate the standard regular work hours. However, all time worked by night shift workers is recorded as overtime rather than standard time and overtime for extra hours worked.</p> <p><b>We note this is a long standing matter but suggest PACI regularize this arrangement through policy and / or contract changes as necessary or else it will remain in contravention of existing contracts.</b></p>	<p><b>Risk/Implication:</b></p> <ul style="list-style-type: none"> <li>• No contractual basis for the amounts paid to night shift workers made.</li> <li>• Inconsistencies in pay among staff.</li> <li>• Distortion of the understanding of the users of Port Authority financial statements on the actual wages and overtime incurred.</li> </ul> <p><b>Recommendation:</b></p> <ul style="list-style-type: none"> <li>• Management should either pay as per contracts or do whatever is necessary to regularize the current basis for paying night shift workers</li> </ul>	<p>As repeatedly explained to previous auditors general and their respective teams, this arrangement to compensate night shift workers in this manner was made after several consultations with the Labour Board and wider Government in the early 2000's.</p> <p>This matter has been subjected to at least twenty (20) annual audits dating back to 2004 and ad hoc special audits over this time. The documentation, including board minutes and policy documents surrounding this decision, would date back to early 2003-2004 and is perhaps stored in archives.</p> <p>This arrangement is a standard part of our compensation system for night workers at the Port. Over time, and with the revision of the contracts, the wording around compensation was not</p>
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		<p>robust enough to capture existing practices.</p> <p>However, management will work with the Board of Directors to address the concerns highlighted.</p>	
<p><b>Deficiencies in time recording for wages employees</b></p> <p>The ADI time application is used to record time for employees' wages. However, it allows manual intervention. A supervisor can adjust the hours a specific staff member works.</p> <p>However, there are no controls in place for reviewing and approving manually adjusted hours before these are processed for payroll.</p>	<p><b>Risk/Implication:</b> Risk of potential overstatement of the hours worked when manually adjusted in the time recording system, resulting in overstatement of personnel costs.</p> <p><b>Recommendation:</b> Management should establish controls that would enhance accuracy and prevent potential overstatement of hours worked on wages.</p>	<p>While the ADI system affords super user access to managers, it is not without merit. For several reasons supervisors on the respective shifts from time to time need to be able to manually amend the work hours of the staff on duty. This is of functional necessity and is needed to make the system work best.</p> <p>The Deputy Director responsible for Operations can then review the manual edits on a sample basis using the work schedule for the respective teams and his knowledge/reports of the nightly Operations.</p> <p>Management accepts that internal controls can always</p>	<p>By end of 2025</p>



		<p>be improved and will seek to add further strength to the controls where possible.</p> <p>In addition, the Port Authority is currently implementing a system - HRplus, that will add robustness to the wages control environment.</p>	
<p><b>Uncleared suspense account balances</b></p> <p>We noted that the clearing account with KYD 8,749.89 had not moved from the prior year. Management confirmed that there were no transactions in the period.</p>	<p><b>Risk/Implication:</b></p> <p>The misstatement of cash, revenue, and receivables at year-end could potentially lead to incorrect decisions by financial statement users. This underscores the importance of accurate financial reporting.</p> <p><b>Recommendation:</b></p> <p>Management should ensure that periodic, i.e. monthly and quarterly, reconciliations of the accounts are performed and reviewed.</p> <p>The balances on clearing accounts should be cleared and reconciled to nil at year-end.</p>	<p>With Cash of \$13M revenues of \$28M, and receivables of \$2M, it is unlikely that \$9,000 in a clearing account will cause users of the financial statements to make incorrect decisions.</p> <p>Notwithstanding this, efforts will be made to examine the matter and resolve in the current year.</p>	By end of year