CAYMAN ISLANDS HEALTH SERVICE AUTHORITY

Report to those charged with governance on the 2024 Financial Statement audit

November 2025

To help the Public Service spend wisely

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REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 31 December 2024 financial statements of the Cayman Islands Health Service Authority ("the Authority"). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the 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; and
    - 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 2024 that we consider are worthy of drawing to your attention.

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 Act (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.

AUDITOR'S 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 that 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 dated 13 September 2024 to which this engagement was subject. The audit of the financial statements does not relieve Management or those charged with governance of their responsibilities.

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 containing audited financial statements, we have read the other information contained in the Authority's annual report and noted that it is materially consistent with information appearing in the financial statements or our knowledge of the Authority's operations. We have not reviewed any other documents containing the Authority's 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 Chief Executive Officer 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 auditor's report on the financial statements.

9. A summary of 40 audit adjustments to the financial statements is included in Appendix 1. The adjustments amounted to $63.9 million (comprised of audit adjustments of $18.6 million and client adjustments of $45.2 million). The majority of this value ($35.9 million) relates to adjustments made to the defined benefit liability.

10. Four uncorrected misstatements with assets, liabilities and income understated by $114k, $202k and $89k, respectively and expenses overstated by $406k were identified during the audit. A summary is attached in Appendix 2.

11. As part of the completion of our audit, we sought written representations from Management on aspects of the accounts and judgments and estimates made. These representations were provided to us on 21 July 2025.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

12. We are responsible for providing our views about qualitative aspects of the Authority's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

13. Generally accepted accounting principles provide for the Authority to make accounting estimates and judgments about accounting policies and financial statement disclosures. We are not aware of any areas where significant accounting practices have changed from the previous year or are inconsistent with generally accepted industry practices. In addition, we are not aware of any new or controversial accounting practices reflected in the Authority's financial statements.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

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

    - Depreciation of property, plant and equipment & right of use assets - $9.3 million
    - Expected credit loss allowances - $16.6 million
    - Post-employment benefit obligations - $32.6 million
    - Provision for slow-moving inventory - $1.6 million
    - Capitalization of freight cost in inventory - $1.2 million

GOING CONCERN

15. As a result of our audit, we did not become aware of any material uncertainties related to events and conditions that may cast significant doubt on the Authority's ability to continue as a going concern.

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

16. Significant deficiencies in internal controls are noted in Appendix 3. Other control deficiencies have been identified and communicated separately to management in the ISA 265 report.

FRAUD OR ILLEGAL ACTS

17. Applicable auditing standards recognize that the primary responsibility for the prevention and detection of fraud and compliance with applicable laws 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.

18. Management is 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.

19. 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 factors such 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.

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

21. No significant difficulties were encountered during the course of our audit.

DISAGREEMENTS WITH MANAGEMENT

22. There were no disagreements with Management that were noted during the audit.

ANY OTHER SIGNIFICANT MATTERS

23. No other significant matters were noted during the audit.

ACKNOWLEDGEMENTS

24. We would like to express our thanks to the Health Services Authority for their assistance during the audit of the 2024 financial statements.

Yours sincerely,

Angela Cullen, CPFA
Acting Auditor General

APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS

No	Account Name	Account No	Debit	Credit
1	Legal Fees Accrual	20115	250,000.00	
	Legal Fees	54264		(250,000.00)
	To reverse legal expense accrual			
2	Pensions Fund Payable	20332		(436,014.08)
	Government Pension	50080	436,014.08	
	To agree pension expense to payroll register			
3	Other Plant & equipment	17140	341,425.41	
	Expense AP Accrual	20160		(341,425.41)
	To adjust other plant & equipment from negative balance			
4	Accruals	20150	1,703,999.25	
	Tech Staff Costs	50070		(1,703,999.25)
	To reverse accrual			
5	Encumbrance Accounting	20103		(255,636.59)
	Encumbrance Accounting	20103		(164,872.68)
	Recruitment	50211	255,636.59	
	Recruitment	50211	164,872.68	
	To adjust recruitment expense from negative balance			

No	Account Name	Account No	Debit	Credit
6	Accruals Strata Fees Lemon Grove *To reverse the strata expense from negative balance*	20150 54337	 52,000.00	(52,000.00)
7	Accumulated Depreciation Right-of-use Assets Operating Lease Rental Lease expense - Sites/Bldg Depreciation Rights-of-use Assets *To correct ROU depreciation and lease liability*	16112 20110 58001 60206	 23,117.00 476,092.00	(4,589.00) (494,620.00)
8	Buildings Accumulated Depreciation Buildings Janitorial Services Maintenance – Buildings Service Contracts – Others Depreciation – Buildings *To expense repairs items*	17030 17035 54306 54316 54356 60001	 19,965.72 11,707.85 559,627.22 141,076.10 	(712,411.17) (19,965.72)
9	Computer Software Accumulated Surpluses - System *To capitalize software cost*	17120 32001	143,185.76 	 (143,185.76)

No	Account Name	Account No	Debit	Credit
10	Work/Construction in Progress	17010	153,526.64	
	Computer Hardware	17110		(1,237.00)
	Accumulated Depreciation Computers	17115	25.77	
	Medical Equipment	17141		(152,289.64)
	Accumulated Depreciation Medical equipment	17146	13,498.64	
	Depreciation - Computer Hardware	60009		(25.77)
	Depreciation - Other Plant Assets	60012		(13,498.64)
	To reclassify assets in the warehouse not yet in the location and condition for use			
11	Accruals	20150	332,060.96	
	Insurance Proceeds - Operations	45007		(332,060.96)
	To record insurance revenue			
12	Accruals	20150		(379,893.00)
	Overtime	50013	379,893.00	
	To adjust overtime to match payroll register			
13	Expense AP Accrual (System Only)	20160	1,279,124.00	
	Lease expense - Sites/Bldg	58001		(1,279,124.00)
	To reflect short term lease			
14	Expense AP Accrual (System Only)	20160	94,945.18	
	Maintenance	54311		(94,945.18)
	To reverse entry made in error			

No	Account Name	Account No	Debit	Credit
15	Rights-of-use Assets	16105	430,334.08	
	Accumulated Depreciation Right-of-use Assets	16112		(200,822.57)
	Operating Lease Rental	20110		(84,152.00)
	Other noncurrent liabilities	29701		(430,334.08)
	Other noncurrent liabilities	29701	300,744.59	
	Accumulated Surpluses - System	32001		(140,800.34)
	Accumulated Surpluses - System	32001	128,030.01	
	Lease expense - Sites/Bldg	58001		(105,600.00)
	Lease Interest Expense Account	58005	16,533.49	
	Depreciation Rights-of-use Assets	60206	86,066.82	
	To reflect the prior year right-of-use assets, liabilities and expenses			
16	Provision for Overseas Medical	12502		(749,732.91)
	Doubtful Debt Expense	58505	749,732.91	
	To provide for the longstanding invoice			
17	Expense AP Accrual	20160	456,718.76	
	Legal Fees	54264		(456,718.76)
	To reflect correct insurance expense			
18	Expense AP Accrual	20160	223,962.39	
	Common Area Management	58497		(223,962.39)
	To reflect correct expense amount			
19	Expense AP Accrual	20160	100,000.00	
	Lease expense - Medical Equipment	58003		(100,000.00)
	To reverse accrual			

No	Account Name	Account No	Debit	Credit
20	Expense AP Accrual (System Only) Professional Fees *To correct the duplicate reversal*	20160 54256	168,299.76	 (168,299.76)
21	Rights-of-use Assets Accumulated Depreciation Right-of-use Assets Operating Lease Rental Other noncurrent liabilities Lease Interest Expense Account Depreciation Rights-of-use Assets *To record right-of-use assets, liabilities and expenses*	16105 16112 20110 29701 58005 60206	247,707.13 2,346.87 28,899.00	 (28,899.00) (107,603.00) (142,451.00)
22	Accounts Receivable - Sale of Goods and Services (Outpatient Revenue *To reverse test patient revenue*	12074 42513	 61,290.00	(61,290.00)
23	Finished Goods Inventory Miscellaneous Clearing Account *To adjust inventory figures*	13200 59014	 2,970,912.00	(2,970,912.00)
24	Provision for Doubtful Debts Doubtful Debt Expense *To provide for long-standing receivables*	12503 58505	 1,220,277.57	(1,220,277.57)
25	Accruals Legal Fees *Legal cases accrual*	20150 54264	 310,000.00	(310,000.00)

No	Account Name	Account No	Debit	Credit
26	Other Receivables Govt. Past Service Pension *To recognize receivable from PSPB*	12012 50081	126,407.00	 (126,407.00)
27	Provision for Overseas Medical Doubtful Debt Expense *To provide for the disputed invoice*	12502 58505	 600,803.21	(600,803.21)
28	Finished Goods Inventory Freight & Shipping *To adjust inventory for the freight percentage*	13200 54300	 837,298.00	(837,298.00)
29	Accumulated Impairment Impairment of Inventor *To provide for slow-moving inventory*	17165 78604	 1,624,432.00	(1,624,432.00)
30	Finished Goods Inventory Impairment of Inventor *To increase inventory write-off to match approvals*	13200 78604	 103,735.00	(103,735.00)
31	Finished Goods Inventory Freight & Shipping Miscellaneous Clearing Account *To correct the inventory balance*	13200 54300 59014	992,276.06	 (79,843.00) (912,433.06)
	Subtotal audit adjusting entries		**18,618,600.50**	**(18,618,600.50)**

No	Account Name	Account No	Debit	Credit
1	Expense AP Accrual (System Only)	20160		(607,936.00)
	Medical/Health Supplies *To record usage expenses*	50851	607,936.00	
2	KYD-Ministry and Portfolio Bank	10101		(380,893.06)
	USD-Ministry and Porfolio Bank	10102		(294,665.93)
	KYD-Ministry and Portfolio - Payroll	10103	335,310.06	
	Accrued Prepayments	12009	443,253.85	
	Other Receivables	12012	156,869.82	
	Provision - Other Receivables	12014		(156,869.82)
	Accounts Receivable - Sale of Goods and Services (	12074		(538,483.88)
	Accounts Payable (Special)	20195	124,646.00	
	Basic Salary	50011	68,225.55	
	Employee health care costs - employee	50060	14,917.22	
	Electricity	51405	102.23	
	Water	51420	97.80	
	Bank Charges	54227	9,316.83	
	Freight & Shipping	54300	1,015.40	
	Miscellaneous	54428	28,457.25	
	Lease expense - Sites/Bldg	58001	31,830.86	
	Doubtful Debt Expense *To clear GL bank reconciling items*	58505	156,869.82	

No	Account Name	Account No	Debit	Credit
3	Unfunded Healthcare Liability	25300	30,777,000.00	
	Defined Pension Benefit Liability	26100	5,084,000.00	
	Accumulated Surpluses Clearing	32002		(32,625,000.00)
	Movement in Health Care Liability	50160		(2,748,000.00)
	Past Service Pension Expense	74100		(488,000.00)
	To agree GL to actuarial valuation			
4	Accruals	20150	36,987.74	
	Audit Services	54252		(36,987.74)
	To correct over accrual on audit fees including CIG internal audit fees			
5	Bank Charges	54227		(238,179.00)
	Lease Interest Expense Account	58005	238,179.00	
	To breakout lease interest expense from bank charges			
6	Accrued Prepayments	12009		(287,483.00)
	Public Relations & Publicity	54401	287,483.00	
	To expense prepayments			
7	Expense AP Accrual (System Only)	20160	645,370.00	
	Maintenance - Buildings	54316		(135,689.00)
	Overseas Lab Tests	54371		(509,681.00)
	To nil open PO balance for which goods were not received			

No	Account Name	Account No	Debit	Credit
8	Accounts Receivable - Sale of Goods and Services	12074		(1,668,970.00)
	Provision for Doubtful Debts	12501		(4,101,867.00)
	Provision for Doubtful Debts	12501	1,668,970.00	
	Doubtful Debt Expense *To increase provision and write off bad debt*	58505	4,101,867.00	
9	Accruals	20150		(432,668.00)
	Overseas Lab Tests *Additional accrual for lab test*	54371	432,668.00	
	Subtotal client adjusting entries		**45,251,373.43**	**(45,251,373.43)**
	Grand total adjusting entries		**63,869,973.93**	**(63,869,973.93)**

APPENDIX 2 – SUMMARY OF UNCORRECTED MISSTATEMENTS

No	Description	Assets	Liabilities	Equity	Income	Expenses
Unrecorded - projected						
1	To increase inventory for the average cost	99,341.85	-	-	-	(99,341.85)
		99,341.85	-	-	-	(99,341.85)
Unrecorded - factual						
1	To adjust the difference between receivable GL & sub-ledger	(89,446.00)	-	-	89,446.00	-
		(89,446.00)	-	-	89,446.00	-
2	To correct system system-generated loss	-	202,418.18	-	-	(202,418.18)
3	To adjust depreciation on the building	104,707.00	-	-	-	(104,707.00)
		104,707.00	202,418.18	-	-	(307,125.18)
	Understated/(Overstated)	**114,602.85**	**202,418.18**	-	**89,446.00**	**(406,467.03)**

APPENDIX 3 – INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observations	Risks/Implications and Recommendations	Management Responses	Implementation Dates
1. Inadequate controls surrounding the bank reconciliation process The Authority's bank reconciliation process was not completed promptly, and the general ledger reconciling entries were not thoroughly investigated or recorded. The reconciliations included numerous transactions that had not been posted to the bank's general ledger. These unposted transactions comprised overpayments to vendors, unrecorded payments, and unrecorded deposits. Consequently, the Authority had to make 110 adjusting journal entries amounting to $2.6 million to resolve these issues.	**Risk/Implication:** Untimely review and validation of bank reconciliation items expose cash to misappropriation and errors, potentially causing significant financial loss and/or material misstatement in the financial statements. This could also negatively impact the Authority's cash flow. **Recommendation:** Management should ensure that the Finance team performs timely bank reconciliations and investigates reconciliation items to confirm the validity of the transactions.	Agreed: Note that the HSA migrated from IRIS to Oracle Fusion Q4 2023 which presented a number of challenges forcing multiple revisions of the bank reconciliation during the year. The issues remain but and are currently being addressed by external consultants. Coupled with same, new staff was engaged to perform same. This combination presented a number of business and procedural challenges. A manual system of tracking and monitoring of bank activity is currently in place as we navigate the challenges. Nevertheless, the feedback is noted and the process has now been changed to ensure that all adjusting entries are investigated prior to being posted. The Authority is exploring options for outsourcing to ensure that recons are kept current.	Q4 2025

Observations	Risks/Implications and Recommendations	Management Responses	Implementation Dates
2. Quality of draft accounts and supporting working papers. We noted that the quality of the draft accounts provided for audit requires improvement. During the audit, a total of forty (40) adjusting journal entries were made, totaling $63.9 million. Of this total, $35.9 million pertains to actuarial post-retirement benefits. Other adjustments include, inventory, accruals, cash, personnel costs, and other items. These adjustments are a result of a poor year-end financial close process and the failure to perform timely general ledger and sub-ledger reconciliations. See Appendix 1 for a list of adjusting journal entries.	**Risk/Implication:** Senior management and the Board may make business decisions, such as budgeting and strategy, based on inaccurate financial data. This inaccuracy can lead to erroneous decisions, resulting in financial losses and missed opportunities. **Recommendation:** Management should ensure that the Finance team enhances the effectiveness of the monthly financial close process by thoroughly reviewing transactions to ensure they are accurately recorded. Additionally, the Authority should perform monthly reconciliations between the sub-ledgers and the general ledger.	Agreed. Note that the Authority conducts monthly reconciliations between the various subledger and systems feeding into the GL in order to facilitate monthly management reporting. Due to the ongoing system issues resulting from the Migration from IRIS to FUSION, it has become necessary to manually validate transactions in Fusion. The HSA is taking steps to improve bench strength by increasing the current staffing levels and skill sets in order to mitigate the risks caused by the system gaps while it works to resolve challenges resulting from the migration between the accounting platforms. Similarly, another level of review has been implemented to reduce the risks of errors and misstatements. The Feedback of the OAG is accepted and forms part and parcel of the improvements being made in the business process.	Q3 2025

Observations	Risks/Implications and Recommendations	Management Responses	Implementation Dates
3. Inventory counts are inadequate, and the year-end inventory count figures were not updated in the inventory system We identified the following issues affecting the accuracy and completeness of the inventory: i. Inventory counts are conducted twice a year for the Pharmacy Stores and Materials Management Stores; however, all other locations are only counted once annually during the year-end stock take. The value of the inventory in areas counted solely at year-end is $7.5 million, or 51% of the year-end inventory value before provisioning. ii. During our year-end inventory count observations, OAG was provided with inventory figures for the George Town Pharmacy and the Smith Road pharmacy, and noted that the inventory records showed significant negative balances as of 27 December 2024 and 28 December 2024, respectively. Discussions with the Authority's staff indicated that, at times, Pharmacists issue drugs in different measurements than those recorded in the system. For example, one tube of Fucidin cream might be issued as	**Risks/Implications:** i. Regular stocktaking is crucial for maintaining accurate inventory records. Inaccurate stock records, caused by insufficient stocktaking, can lead to lost sales, overordering, and theft. ii. Throughout the year, the inventory value could be significantly misstated. Senior management and the Board might be making business decisions based on inaccurate financial data. Inaccurate financial data can lead to poor decisions, resulting in financial losses and missed opportunities. iii. Failing to update the inventory figures will result in misstatements of financial statements and may conceal any fraud or theft. iv. Potential material inaccuracies in stock count	Agreed. Due to the manual nature of the counts and the 2-week counting period and the resulting impact on the delivery of care, it has never been practical for the HSA to close all inventory areas for interim counts. However, due to the gravity of the matter at hand, the required system upgrades, enhancements and protocols are being prioritized to ensure we eliminate and at minimum mitigate the risk of inventory balances being misstated in our records. The following detailed steps are part of the improvements being pursued. i) The HSA has been engaging with various providers of bar code systems over the past year. A potential solution has been identified and is now in the testing phase with a view for full implementation across all inventory areas over the next 12 months. This will improve the	Implementation across both systems: Q3 2026

<table>
<tr><th>Observations</th><th>Risks/Implications and Recommendations</th><th>Management Responses</th><th>Implementation Dates</th></tr>
<tr>
<td>14 grams instead of one tube, which results in a discrepancy of negative 13 tubes in the system.

<table>
<tr><th>Location</th><th>Negative Amounts</th></tr>
<tr><td>George Town Pharmacy</td><td>1.7 Million</td></tr>
<tr><td>Smith Road</td><td>999 thousand</td></tr>
<tr><td>Total</td><td>2.7 Million</td></tr>
</table>
iii. During our year-end audit, we found that some quantities had not been updated in the system after the count was finished. After updating the year-end inventory count results, a $2 million write-down was required, recognised and included in the audit adjustments in Appendix 1.

iv. During the inventory count and observation, we noted that the counting process is very manual and labour-intensive, involving over 15 staff members and taking two weeks to complete. The year-end inventory valuation is also overly manual and is continually done in Excel. This has led to discrepancies between the recorded and actual inventory balances at year-end, mainly due to human error. Although controls are in place to address potential errors in the count, the heavy reliance on manpower makes the process tedious. Therefore, it is unsustainable to</td>
<td>could impact the inventory balance reported in the financial statements. Additionally, incomplete and inaccurate stock counts and inventory data can negatively impact operational activities, management planning, and decision-making.

This could also result in material misstatements of the financial statements.

Recommendations:
Management should:

i. Develop a policy to conduct inventory counts at outstations more regularly.

ii. Train staff on proper issuing procedures to prevent further errors.

iii. Address data migration errors.</td>
<td>efficiency, accuracy and frequency of the counts.

ii) The errors noted in the inventory are a result of data migration errors in Cerner from inpatient to outpatient use. These are being methodically addressed by the Business Analyst.

iii) HSA has agreed to conduct full mid-year count in addition to full year-end count. The second layer of review has now been reinstated on the count results by the Pharmacy team. This control was not followed by the interim personnel covering the function due to lack of formal SOPs. Now addressed.

iv) The HSA has explored and tested the landed cost module and freight charges module in Fusion which will address MedSurg items.

v) Currently exploring the integration of Cerner inventory</td>
<td>Implementation in Cerner: Q4 2025

Implementation in Cerner: Q2 2025

Implementation in Cerner: Q3 2025

Implementation in Cerner: Q4 2026</td>
</tr>
</table>

Observations	Risks/Implications and Recommendations	Management Responses	Implementation Dates
ensure a complete and accurate inventory count at all times. This resulted in $2.9 million adjustments in inventory.	iv. Update the system with the count results to ensure accurate inventory figures and variance reports are generated. This will enable the timely investigation and resolution of anomalies. v. With the implementation of the Oracle Fusion inventory management system, management should explore and adopt the relevant modules in the system that significantly automate the inventory management process at the Authority. For instance, applications or modules within the system that monitor materials at every stage of the product life cycle and across all departments. Inventory applications/modules assist in managing warehouse activities, including replenishing stock, counting inventory, moving materials within the warehouse, and issuing materials to various	with Fusion as Cerner does not have this capability. In the interim we will update or policies to address how items are to be costed. We will continue to find ways to optimize the inventory business process as recommended.	

Observations	Risks/Implications and Recommendations	Management Responses	Implementation Dates
	departments. They also record actual shipping costs for materials purchased, ensuring accurate pricing of items and supporting financial reporting.		

Observations	Risks/Implications and Recommendations	Management Responses	Implementation Dates
4. Improper valuation of inventory We identified the following issues impacting the valuation of inventory: i. The Pharmacy inventory valuation reports were provided in USD. When converted to KYD, this resulted in a decrease of approximately $900 thousand. Additionally, because pharmacy purchases are recorded in USD in Cerner, the monthly pharmacy usage was also recorded in USD in the general ledger. ii. The Authority values inventory at average cost; however, the material management valuation report showed inventory valued at list price. When this was corrected to average cost, inventory was adjusted upward by $992 thousand. iii. Furthermore, the Authority is estimating the freight cost associated with inventory items. Currently, the Authority estimates that on average, 11% of the cost of a product will be added for freight. This 11% is added to inventory at year-end; however, estimates are not always precise, and freight costs may vary significantly for different items.	**Risks/Implications:** i. Pharmacy inventory balances and pharmacy usage during the reporting period will be overstated, leading to a misstatement in the financial statements. ii. Incorrect inventory valuation leading to misstatements in the financial statements. iii. Management does not know the true cost of an item; therefore, the actual markup might be lower than expected, leading to financial losses. **Recommendations:** Management should: i. Collaborate with the Oracle Health provider to implement a module that converts USD purchases into KYD.	Agreed. Oracle Fusion converts prices into the functional currency. The issue of currency conversion is only valid in Cerner. i) The HSA is working with Cerner to address the currency issue through integration with Fusion so that all purchases are uniformly reported in the functional currency. While this is ongoing, Finance has updated its protocols to ensure that this is addressed during the valuation process. ii) Both Cerner & Fusion are configured to report using the average costs. iii) A Freight and Landed Cost module with Oracle is being implemented for Fusion.	Q4 2026 Q4 2025 Q4 2025

Observations	Risks/Implications and Recommendations	Management Responses	Implementation Dates
	ii. Management should ensure inventories are consistently valued at average costs and promptly resolve the Fusion system issue that prevents generating the inventory report at average cost for certain departments. iii. Establish a system that allocates all costs related to bringing inventory to the Authority among the related inventory items when entering them into the system.	iv) Seeking to achieve full valuation of Cerner inventory through the integration with Fusion.	Q4 2026

Observations	Risks/Implications and Recommendations	Management Responses	Implementation Dates
5. Pharmacy Technicians' "top-ups" are not signed by the receiver Pharmacy technicians perform a process called "top up." This involves Pharmacy Technicians visiting the wards to assess which inventory items are needed. The Pharmacy Technicians create a requisition, input it into the system, and a picking ticket is generated. One technician retrieves the item from the shelf, and a second technician verifies that the correct item was selected. Upon delivery of inventory to the ward, no one signs to confirm receipt of the items.	**Risk/Implication:** Inventory items may not be delivered to the correct location, resulting in financial loss. **Recommendation:** Management should ensure that inventory items stocked during the top-up process are signed for upon receipt by the Ward Technician.	Agreed. The business process is being updated to ensure that the receiving areas sign as proof of receipt.	Q3 2025

Observations	Risks/Implications and Recommendations	Management Responses	Implementation Dates
6. Inventory reorder levels are manually maintained Inventory to be reordered at the Pharmacy Stores is maintained in the "low stock/items below minimum quantity" book. Discussions with management reveal that the system calculates the reorder point; however, this is not used because the system only considers the average daily usage over the last 30 days, which does not yield an ideal figure. Additionally, the inventory systems do not track expiry dates. In 2024, the Authority wrote off $631 thousand of inventory for both Pharmacy Stores and Materials Management due to it being expired or obsolete. Consequently, a provision of $1.1 million has been made for slow-moving inventory, such as items with one or no movements throughout the year.	**Risk/Implication:** Manually tracking and maintaining the reorder point can lead to stockouts, lost sales, and inventory write-offs, resulting in financial losses for the Authority. **Recommendation:** Management should collaborate with the system provider to enable the system to automate reorder quantities according to Authority's preferred usage days or policy.	Agreed. Fusion reorder levels are not maintained manually. Fusion produces and distributes an automated min/max report weekly. Similarly, Fusion has the capability to track lot and expiry data. These functionalities are currently being optimized with the help of the Oracle consultant and anticipated to be completed by year end. HSA will revert to using the Cerner reorder functionality.	Q4 2025 Oracle Fusion Q4 2025

Observations	Risks/Implications and Recommendations	Management Responses	Implementation Dates
7. Lack of prenumbered goods receiving notes in the Pharmacy Stores and Materials Management Stores Inventory at the Authority is received at two locations: The Pharmacy Stores and the Materials Management Stores. These locations do not use pre-numbered goods received notes. As a result, some inventory received in 2024 is recorded in the inventory sub-systems in 2025.	**Risk/Implications**: Inventory received might not be recorded in the correct financial year in the system, which can lead to inaccurate accounting records. **Recommendation:** Management should implement a system that accurately captures the year-end inventory cut-off.	Agreed. All Fusion GRNs are system generated and are pre-numbered. A solution for the resolution of the Cerner GRNs will be explored as part of the inventory fixes for said application.	N/A Q4 2026

Observations	Risks/Implications and Recommendations	Management Responses	Implementation Dates
8. Inconsistent inventory system methods across all units The Authority maintains perpetual records for the Pharmacy Stores and Materials Management Stores only. All other locations/departments use the periodic inventory method. During the year-end inventory count, the Authority was unable to provide a reliable value for inventory items for departments using a periodic system, as this assessment is necessary to determine which departments will be covered in our year-end inventory observations. The value of inventory in areas using periodic inventory systems as of December 31, 2024, is $7.5 million, which is material to the financial statements.	**Risk/Implication**: A lack of a perpetual inventory system increases the possibility of misappropriation, as detection of any variances between actual and physical stock on hand and expected balances cannot be made in a timely manner. Assessment of units to attend during the year-end stocktaking might not be properly selected due to a lack of reliable information, which could result in inefficient audit. **Recommendation:** Management should ensure that the Authority implements a perpetual inventory system that accurately reflects the quantities on hand across all departments. A phased implementation could also be adopted, particularly for departments with high-value drugs and narcotics.	Agreed. The HSA is working with Oracle and Cerner to achieve a unified and consistent inventory methodology and management across the HSA.	Full implementation Q2 2026

Observations	Risks/Implications and Recommendations	Management Responses	Implementation Dates
9. Patient revenues are reversed without a logged reason in the Cerner system. Generally, when clinical staff reverse patient revenue, reasons are logged in the system. Revenue can be reversed for valid reasons, such as an incorrect charge or an incorrect quantity. In 2024, we noted 4,065 reversals valued at $1.17 million, with the reasons selected from the system's drop-down menu labelled "another reason". However, the clinical staff did not include any additional details in the notes section.	**Risk/Implication:** Revenue could be reversed without a valid reason, potentially affecting the assessment of the reversal's legitimacy and resulting in a misstatement of the financial statements. **Recommendation:** Management should ensure that the reasons for revenue reversals are consistently documented in the Cerner system.	Agreed. The current field is free text and does not allow for a layer of review prior to posting. Once posted, this can not be altered. Nevertheless, IT has raised a log with Cerner to determine how this can be addressed. The business review process has now been expanded to flag this as a reportable matter with the HoD of each unit. User retraining and awareness is now underway.	Q4 2025

Observations	Risks/Implications and Recommendations	Management Responses	Implementation Dates
10. Sequential gaps in Encounter Financial Number "FIN" We observed that patient revenue for 2024 had 759 gaps in the FIN number. Gaps indicate that potentially missing revenue exists. Upon further investigation, these gaps were identified as a setting issue in the Cerner system, which needed to be updated.	**Risk/Implication:** Revenue system-sequential gaps may result in missing revenue, leading to a misstatement of financial statements. **Recommendation:** Management should ensure that the Cerner system settings are updated as soon as possible to prevent these system-generated gaps, enabling genuine suspicious gaps to be clearly identified and investigated.	Agreed. The gaps have been confirmed as "normal" by the manufacturer and arises when an encounter has been merged, this action causes the cost to roll to a new encounter and does not impact the reported revenue. While the practice meets clinical standards, we recognize the shortcomings from an accounting perspective in terms of the completeness of the listing of all encounters and are exploring ways to have the report reflect data in line with accounting standards.	Q1 2026

<table>
<tr><th>Observations</th><th>Risks/Implications and Recommendations</th><th>Management Responses</th><th>Implementation Dates</th></tr>
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11. Excessive meetings are held by the Board

Section 17 (1a) of the Public Authorities Act states that “a board shall meet at least once every three months and at such other times as may be necessary or expedient for the governance of the public authority.” In some instances, the board held pre-meetings before the main board meeting. The total number of meetings in 2024 was 127, comprising 11 board meetings, 10 directors' monthly team calls, and 106 sub-committee meetings and other meetings. The increased number of meetings resulted in a significant increase in board fees, as noted below. Board members are paid per meeting.

<table>
<tr><th>Financial year</th><th>Number of directors</th><th>Number of meetings</th><th>Fees incurred</th></tr>
<tr><td>2021</td><td>6</td><td>80 meetings, including 22 Board meetings</td><td>$192,550</td></tr>
<tr><td>2022</td><td>7</td><td>96 meetings, including 20 Board meetings</td><td>$250,900</td></tr>
<tr><td>2023</td><td>7</td><td>100 meetings, including 16 Board meetings</td><td>$250,750</td></tr>
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Risk/Implication:

Too frequent meetings may cause the Board to lose sight of strategic issues, leading to an overemphasis on operations and the lack of segregation of duties between the board and management.

Recommendation:

Board meetings should be held with sufficient frequency to discharge duties effectively, but not so often that the board may lose sight of strategic issues.

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Disagree

The Board has remained fully compliant with all Terms of Reference (TOR) relating to the frequency of both Subcommittee and Board meetings.

The *PAA* should not be considered in isolation; rather, reference must also be made to the *Health Services Authority Law (2018 Revision),* specifically, *s. 8(3), 9(1),* and *9(3).*

In addition, it is important to note that the Board’s Manual does not define meetings. Neither is there a definition in the PAA or in the HSA Act as to what constitutes a meeting, notwithstanding the parameters set out in the PAA. Nonetheless, the Policy Number BOD P015 of the Board of Directors’ Policy Manual page 35*, Compensation of Board Members’ is instructive and provides as follows- “The remuneration of Board Members should reflect the vital contribution that they make to the CIHSA… Such services would not ordinarily be furnished without charge. If any director is called upon to expend time and effort in activities, in addition*

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<td>N/A</td>
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Observations				Risks/Implications and Recommendations	Management Responses	Implementation Dates
2024	7	127 meetings, including 11 Board meetings & 10 Board directors' monthly team calls)	$326,700		*to ordinary Board duties, he should be reasonably compensated."* Firstly, it is important to emphasize that due to the volatile, unpredictable, complex, and ambiguous nature of the healthcare environment, the operations and governance of the Health Services Authority (HSA) must be recognized as distinct and inherently unique. Thus, in order to make and, when necessary, adjust strategic decisions, the Board must be appraised of relevant operational matters, for example, given the aging infrastructure and capacity constraints of the Anthony S. Eden Hospital, (known as the Cayman Islands George Town Hospital), along with its satellite operations, and in light of the growing population and increasing demand for services, ongoing modification, expansion, and re-prioritization are required. These realities persist even after a strategic action plan has been approved, thereby necessitating the constant continued oversight of the Board. While the concern that frequent meetings may shift focus toward	

Observations	Risks/Implications and Recommendations	Management Responses	Implementation Dates
		operational matters is understandable, it is important to emphasize that the HSA Board's regular engagements contribute meaningfully to enhanced strategic oversight. Our well-structured meetings provide the Board with timely insights, enabling proactive governance and long-term planning. Rather than blurring lines between governance and management, frequent interactions reinforce the Board's ability to hold management accountable. It is the structure of the agenda, the clear delineation of roles, and a disciplined focus on strategic priorities that safeguard against operational overreach. Accordingly, the Board's regular meetings serve to reinforce, rather than undermine its strategic function and oversight responsibilities. The recommendations are not accepted, as the Board remains fully compliant with its Terms of Reference, Board Policy, and the Health Services Authority Law (2018 Revision). Furthermore, the Board has consistently maintained its focus on strategic matters, without compromising the appropriate	

Observations	Risks/Implications and Recommendations	Management Responses	Implementation Dates
		segregation of duties between the Board and management.	

Observations	Risks/Implications and Recommendations	Management Responses	Implementation Dates
12. Non-compliance with the Procurement Regulation (2022 Revision) – Publication of contract award We noted that the Authority did not publish the contract award notification on a website designated by the Central Procurement Office ("CPO") within the required timelines. Section 19(1) of the Procurement regulations requires the award to be published within 30 days. See Exhibit 1 at the end of this report for details of the exceptions noted.	**Risks/Implications:** There is a risk that the value for money on the procurements may not be adequately demonstrated. **Recommendation:** Management should publish procurements on the website designated by the CPO in the year in accordance with the Procurement Regulations.	Accepted. All outstanding contract award notifications have been published on the website designated by the Central Procurement Office. Previously established protocols for the preparation and submission of the reports have been reengaged and will be adhered to going forward.	Q3 2025

Observations	Risks/Implications and Recommendations	Management Responses	Implementation Dates
13. End-user controls for Oracle Fusion and Cerner applications were not identified and implemented End-User Controls (EUCs) have not been identified for the Oracle Fusion Application. This has prevented the OAG from testing the design and implementation of controls in place for the Fusion Application. Additionally, one of the ten recommended end-user controls for the Cerner application has not been implemented by the Authority.	**Risk/Implication:** Without identifying the controls necessary to mitigate risk, the Authority can expose itself to vulnerabilities. **Recommendation:** Management should perform a risk assessment and identify those controls that will mitigate those risks.	Agreed. HSA will review all recommended controls for each software and implement as needed.	Q4 2025
14. No evidence of a fully executed Service Level Agreement between the Authority and Oracle. Management indicated that the service level agreement was with the core government (CSD), which covers the Authority; however, it was never provided.	**Risk/Implication:** Without a signed service level agreement, the Authority may incur financial loss arising from disputes about terms and conditions. **Recommendation:** Management should ensure that it obtains, agrees and signs the service level agreements.	Agreed. This will be agreed with CIG/ CSD.	Q4 2025

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
REITERATION FROM THE PRIOR YEAR			
15. Annual review of accounts receivable ageing and bad debt provision rates Our audit procedures revealed that the Authority has a policy to review the bad debt provision rates based on the accounts receivable ("AR") ageing report twice a year (December & June). During the audit, we observed that the Authority did not conduct a review in the current year due to a lack of resources, despite the next review being due by December 2024. Additionally, no review was performed in 2023. We further note that, considering the requirements of IFRS 9, which mandates the recognition of impairment losses on a forward-looking basis—recognizing impairment loss before the actual credit loss event occurs—this policy approach is not sufficient to ensure the Authority's bad debt provision complies with the accounting standard.	**Risk/Implication:** Potential non-compliance with the accounting standard and potential understatement of the bad debt provision balance, resulting in the material overstatement of the AR balance at year-end. **Recommendation:** Management should conduct an annual review of the bad debt provision rates, considering current and forecasted economic conditions, especially its impact on significant AR balances. Conditions specific to significant individual AR balances should also be considered when determining the provision rates.	Agreed. We are in process of conducting a thorough review of our AR trial balance. We have started reviewing the bad debt provision rates based on current collection trends by health plan and will be establishing SOP to ensure we can provide updated provision rates as per policy.	Q4 2025

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
16. Timely application and review of unapplied payment receipts <u>Long outstanding patient credits (GL 23400 account)</u> As at 31 December 2024, total outstanding patient credits amounted to $16.2 million (2023: $14.2 million). Additionally, $13.3 million (82%) of the $16.2 million in patient credits is over one year old. The total amount is recorded in GL# 23400 and shown as Other Liabilities in the financial statements. AR credits are due to the following: • Duplicate billing to a secondary insurer; • Patient paid a larger co-pay than was necessary, or no co-pay was necessary; • Duplicate or incorrect charges were reversed after the patient or insurance provider had already provided payment; and • Patient paid the deposit upfront and left without being seen or having a cancelled appointment.	**Risk/Implication:** The Authority's failure to apply payment receipts to customer accounts in a timely way could impact its ability to identify the real customers with outstanding balances that it should focus on its AR collection activities. This could also impact the amount of provisions made for bad debt accounts. **Recommendation:** Management should ensure timely reviews and processing of payments to the related AR to resolve the substantial AR credits at year-end.	Agreed. This is an ongoing process of reviewing patient credits monthly. A new business process has now been rolled out which allows the collection team the ability to post charges via the lockbox process. This change has seen a significant improvement in the turnaround time for posting of receipts.	

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
Previous implementation date was Q1 2026. <u>Long-standing ATB unposted deposits - (GL 12074 account)</u> As of 31 December 2024, the total outstanding unposted patient/client deposits amounted to $26.8 million (2023: $23.5 million). This represents payments by customers for which the Authority has not yet updated the respective accounts.			

EXHIBIT 1 – INSTANCES OF NON-COMPLIANCE WITH SECTION 19(1) OF THE PROCUREMENT REGULATIONS (2022 REVISION)

PROJECT PROCUREMENT DESCRIPTION	VENDOR NAME	CI VALUE
Employee Assistance Programme 2024 Membership Renewal	Employee Assistance Programme	58,500.00
A&E New Triage and Registration Construction	Metro Builders	37,250.00
The Relocation and Expansion of the Physiotherapy Department	Interior Solutions	32,895.00
Procurement of Ten Infusomat Space Pumps and Four Perfusor Space Pumps for Faith Hospital	Collins Ltd	31,103.20
Installation of Wall Protection in A&E	Metro Builders	29,950.00
Relocation of EMS and Forensics	Metro Builders	28,987.00
Procurement of Furniture for Various Locations	Kirk Office Equipment	16,393.29
Critical Care Unit: Purchase of Hospital Commodes	Morris Group International	69,211.00
Provision of Drying Cabinet for the New Endoscopy Unit	Andar International	35,917.07
Provision of Physiotherapy Supplies	Rehab Mart	35,077.01
The Supply of Hamilton T-1 Transport Ventilator for Faith Hospital	Puerto Rico Sales & Medical Service	26,800.00
Certification and Validation of Primary Engineering Devices	MedTech Service Solutions	12,465.35