OFFICE OF THE OMBUDSMAN

REPORT TO THOSE CHARGED WITH GOVERNANCE ON THE 2025 AUDIT

JUNE 2026

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 2025, financial statements of the Office of the Ombudsman (the "Office"). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Office in sufficient time to enable them to take 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 2025 financial statements that we consider 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 proactively release all final reports on our website: www.auditorgeneral.gov.ky.

AUDITOR'S RESPONSIBILITIES IN RELATION TO THE AUDIT

AUDITOR'S RESPONSIBILITY UNDER INTERNATIONAL STANDARDS ON AUDITING (ISAs)

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 during the performance of our audit.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

5. Management's responsibilities are detailed in the engagement letter dated 21 August 2025. 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 Office's annual report and noted that it is materially consistent with information appearing in the financial statements or our knowledge of the operations of the Office. We have not reviewed other documents containing the Office'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 Ombudsman 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 audit report with an emphasis of matter paragraph on the 31 December 2025 financial statements.

9. No audit adjustments were made to the financial statements. One uncorrected misstatement is attached as Appendix 1.

10. As part of the completion of our audit, we obtained written representations from management on aspects of the accounts, judgments, and estimates made. These representations were provided to us on 28 April 2026.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

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

12. Generally accepted accounting principles provide for the Office to make accounting estimates and judgments about accounting policies and financial statement disclosures. We are, however, not aware of any new or controversial accounting practices reflected in the Office's financial statements.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. Management has made judgments and estimates regarding the following financial statement items:

- Impairment of property, plant and equipment
- Useful lives of property, plant and equipment
- Expected credit losses
- Provisions and contingent liabilities

GOING CONCERN DOUBTS

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

INTERNAL CONTROL MATTERS AND SIGNIFICANT FINDINGS

15. Significant internal control and other findings are noted in Appendix 2, along with management's response.

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, under the oversight of those charged with governance, places a strong emphasis on fraud prevention and deterrence.

17. They are also responsible for establishing and maintaining controls pertaining to the Office'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. When exercising oversight responsibility, those charged with governance should consider the potential for management to override controls or exert other inappropriate influences over the financial reporting process.

18. 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.

19. 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.

20. No fraud or illegal acts came to our attention as a result of the 2025 audit.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

21. No difficulties were encountered in the performance of our audit.

DISAGREEMENTS WITH MANAGEMENT

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

ANY OTHER SIGNIFICANT MATTERS

23. There were no other significant matters noted during the audit.

ACKNOWLEDGEMENTS

24. We would like to express our thanks to the staff of the Office of the Ombudsman for their help and assistance during the audit of this year's financial statements. This enabled us to provide an audit report within the agreed timetable.

Yours sincerely,

Patrick O. Smith CPA, CFE
Auditor General

APPENDIX 1 – SUMMARY OF UNADJUSTED MISSTATEMENTS

Ref no	Description	Assets	Liabilities	Equity	Income	Expenses
1.	To adjust for the understatement of leave liability balance		(5,915.00)			5,915.00
	Understated/ (Overstated)		**(5,915.00)**			**5,915.00**

APPENDIX 2 – INTERNAL CONTROL MATTERS AND SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Observation accepted by Management (Y/N)	Management Response	Implementation Date
Non-compliance with Acts and Regulations					
1. Procurement Approval Threshold Exceeded The total amount paid to one of the legal service providers in 2025 has reached $448k, exceeding the $250k threshold that triggers the requirement for Public Procurement Committee (PPC) approval. Given that the legal matter is still ongoing, this figure is expected to increase. This procurement	**Risk/Implication:** The Office is not in compliance with procurement policies and procedures, and value for money not demonstrated. **Recommendation:** Management should: (i) Report this contract modification to the CPO and	N	Y	(i) The Office did not anticipate defending two judicial reviews within the same year and could not have predicted that additional legal services would be required in respect of each case. In addition, two of the three Entity Procurement Committee members who would have performed the procurement functions were conflicted, rendering the EPC ineffective. Guidance was sought directly	February 2026

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In accordance with Central Procurement Office (CPO) Procurement Policies and Procedures (2023), paragraph 2.5, contract modifications resulting in an increase of more than 15% above the original contract value must be reported to the CPO and the relevant procurement approval committee — in this instance, the Public Procurement Committee. Services were obtained from, and payments were made to, the law firm without prior PPC approval.	seek PPC approval for the excess payments. (ii) Considering the actual cost has significantly exceeded the originally planned amount, this matter should be brought before the standing select committee to oversee the performance of the Office of the Ombudsman in the House of Parliament.			with the Procurement Office however, there was no way to predict the legal costs on which their guidance was dependent. The original matter eventually developed into two separate matters, each requiring different procurement processes but again, this was hampered by having no functioning EPC. Since February 2026, the Office hired a dedicated finance officer and together with the decision-maker, has worked to resolve procurement processes for the Office which is highly dependent on independent legal advice. These discussions continue however, the CPO has advised	

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Observation accepted by Management (Y/N)	Management Response	Implementation Date
				that the Office is unable to retroactively request a contract modification or report the exceeded value. They are however aware and are assisting the Office in developing bespoke procurement processes that meet the requirements of the CPO and Procurement Act while recognising the unique needs of the Office. (ii) The standing select committee to oversee the performance of the Office of the Ombudsman in the House of Parliament has been regularly apprised of the legal matters impacting the Office. This will continue.	

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Observation accepted by Management (Y/N)	Management Response	Implementation Date
2. Questionable Application of Exceptional Circumstances for Legal Services Section 5(1)(k) of the Procurement Regulations permits direct awards for legal counsel in exceptional circumstances. In the current year, the Office continued using the services of a law firm procured in the prior year through a direct award. A total of $127k in legal fees was paid to the law firm in 2025. The cumulative fees paid since 2024 were $201k. In prior year, we raised concerns with the justification of exceptional circumstances given	**<u>Risk/Implication:</u>** There is a risk that the Office's non-compliance with Section 5(1) of the Cayman Islands Government Procurement Regulations will lead to a failure to achieve value for money and an increased potential for the misappropriation of funds, particularly in relation to direct awards. **<u>Recommendation:</u>** The Office should develop its policy and procedures for procuring legal services to ensure compliance with the	Y	Y	The legal counsel involved in this case had been on a retainer with the Office for years. He remained accessible even after the retainer was cancelled but staff continued to contact him without going through procurement. This was the case when he was contacted for general advice on a FOIA appeal. That initial instruction led to his continuing involvement after that matter went to judicial review. This was out of habit more than an intention to defeat the procurement process.	Presently being implemented

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under section 5(1)(k) of the Procurement Regulations.	Procurement Act and Regulation with the advice of the CPO.			We have as of February 2026 hired a finance person who is already working with the CPO to develop policy and processes that address the unique needs of this Office.	
Financial Management					
3. Weaknesses in management of annual leave balances During the audit, we found that leave balances carried forward from the prior period do not agree to those reflected in the current year's leave schedule.	<u>**Risk/Implication:**</u> Adversely affect the accuracy and completeness of year-end leave balances, opening the possibility that employees are given more leave than they are entitled to.	Y	Y	This has been a historical problem resulting in endless investigations against the decision-maker after stricter leave requirements were put in place. This occurred again in 2025. One of the complainants against the decision-maker was responsible for the leave accounting but abrogated that	Immediately More robust leave practices are in place, including removing the function from one singular source to

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Furthermore, we found discrepancies between the number of leave days recorded as taken in the leave schedule against those per approved leave forms.	**<u>Recommendation:</u>** Management should ensure leave balances are properly reconciled at the start and end of the year.			responsibility resulting in excessive leave being approved for two staff members, both of whom were also complainants in the investigation against the decision-maker. No action could be taken against any of them due to restrictions on the decision-maker as a result of the investigation. The decision-maker notified PoCS Payroll of the unearned leave and with its help, has been able to quantify the amount of the salary overpayment to one member of staff. The matter is being referred to the Debt Collection Unit for the overpayments to be	multiple for purposes of inputting, cross checking and verifying leave.

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				recouped from the former member of staff. The decision maker will continue to work with PoCS Payroll in an attempt to recoup overpayments from the other former staff member who remains in the employment of the CIG by way of garnishment.	