

AUDITOR GENERAL'S REPORT

To The Members of the Legislative Assembly of the Cayman Islands:

I was engaged to audit the accompanying consolidated financial statements of the Cayman Islands Government (the "Government"), which comprise of the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of cash flows and statement of changes in net worth for the year then ended and a summary of significant accounting policies and other explanatory information, in accordance with Section 60(1)(a) of the *Public Management and Finance Law (2012 Revision)* ("PMFL").

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Public Sector Accounting Standards ("IPSAS") and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Consolidated Financial Statements

My responsibility is to express an opinion on these consolidated financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Matters that prevented me from completing my audit included, but are not limited to, the following:

a) **Lack of sufficient and appropriate evidence**

Assets:

The Government has not carried out a revaluation of its lands, buildings, infrastructure and leasehold improvements since 2001. IPSAS 17 indicates that such revaluation should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. As at June 30, 2011, the net book value of assets subject to revaluation amounted to approximately \$625 million which represents 36% of the total assets reported. As a result, I was not able to evaluate the reasonableness of the carrying amount of land and buildings, and any associated depreciation or impairment entries recorded within the financial statements as at 30 June 2011 as reasonable.

Liabilities:

The Government, under the provisions of the Public Service Management Law is obligated to provide post-retirement health benefits to qualified employees, spouses and dependent children commencing upon retirement. I have not been provided with management's evaluation of the extent of its obligations under this medical plan, and consequently, was not provided with estimates and supporting calculations of such liabilities. Furthermore, an independent valuation was not provided. As a result of these deficiencies, I was unable to determine the extent of the post-retirement medical costs obligation of the Government as at 30 June 2011. This material omission of post-retirement health care cost from the consolidated financial statements' liabilities is not compliance with IPSAS 25.

Revenues:

Management was unable to assert as to the completeness, accuracy and existence of revenues and receivables recorded within the consolidated financial statements as required by ISA 580. The total revenues recorded amounted to \$732M with related receivables of \$38M. As such I was unable to obtain sufficient appropriate audit evidence to determine the reasonableness of the reported revenues.

Expenses:

Due to the extent of material omissions and accounting issues reported above, the integrity of a number of related items which are required to be reported in the statement of financial performance have been affected. These include, but are not limited to, depreciation, impairment and movement in post-retirement health balances. The inclusion or adjustments to the above line items are likely to be material. As such, I was unable to obtain sufficient appropriate audit evidence to determine the accuracy, occurrence and completeness of expenses.

b) Management Representations**Limited Representations:**

As part of the audit I received representation from management with regards to the fairness of the figures and related note disclosures presented in the consolidated financial statements. The representations made by management for a number of significant balances and disclosures were limited to the representations made by the underlying entities, and not on the Entire Public Sector as required by ISA 580.

c) Integrity of Consolidation Procedures:**Elimination of Inter-entity Balances**

The consolidated financial statements are required under IPSAS 6 to present the final results and balances of the Government as a single economic entity, where all intercompany transactions and balances are eliminated. During the audit, it was noted that the procedures used to ensure the proper elimination and disclosure of all related party balances and transactions were deficient in achieving the requirements of the standards. The identified weakness was systemic and Management was unable to provide alternative appropriate audit evidence which showed that all such balances were appropriately eliminated.

Trial Balance Differences

There was a material discrepancy between the consolidation trial balance and the corresponding figures reported in the consolidated financial statements. The difference consisted of uncorrected misstatements and unreconciled differences.

d) Related Party Transactions

To comply with certain disclosures of IPSAS 20, a system has to be in place to effectively ensure the completeness, accuracy, existence and proper disclosure of all related party transactions. Currently there is no government wide system to collate and report related party transactions. As such I am unable to opine on the fairness of related party transactions that have been included in the consolidated financial statements.

e) Opening Balances

I was unable to substantiate the opening balances of the consolidated financial position as at 1 July, 2010. The Government presented for audit the draft consolidated financial statements for the previous years ended 30 June 2009 and 2010, after the passage of a significant period of time from when I was provided with the accompanying consolidated financial statements. Because I was unable to verify the fairness of those opening balances, I cannot determine the effects of any adjustments to those opening balances on the current consolidated financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the consolidated financial statements.

Other Matter

I draw the attention of the reader of the Government's consolidated financial statements that due to the disclaimer of opinion, no further consideration was given on the overall presentation of the financial statements, including fitness for issue to the wider public. Sufficiency in accordance with and compliance with IPSAS has not been thoroughly explored to achieve an agreeable presentation of these consolidated financial statements with which I am, due to this Auditor General's Report, associated.



Alastair Swarbrick, MA(Hons), CPFA
Auditor General

Cayman Islands
25 July 2013

