CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Report to those charged with governance on the 2023 audit

June 2024

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 2023 financial statements of the Cayman Islands Health Services Authority (the "Health Authority" or the "Authority"). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance 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 that we consider are worthy of drawing to your attention, so that you can consider them.

3. This report has been prepared for the sole use of those charged with governance at the Health Authority 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 publish all final reports proactively on our website: 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.

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 will read the other information contained in the Health 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 Health Authority. We have not reviewed any other documents containing the Health 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 sent to the Chief Executive Officer dated 13 September 2023, and follows 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 with emphasis of matter on the 2023 financial statements. The emphasis of matter draw attention to note 25 of the financial statements, which states that the recognition of post-retirement health liability resulted in a net liability of $41.6 million in the statement of financial position. This event raised a substantial doubt about the Health Authority's ability to continue as a going concern. The audit opinion was not modified in respect of this matter.

9. A total of $81.6 million in audit adjustments was made to the financial statements. The majority of this value ($79.2 million) relates to adjustments made to the defined benefit liability. See Appendix 1A for details on all of the adjustments made.

   There was an uncorrected adjustment of $175.0 thousand of uncorrected misstatements, representing the total deductible amount that the Health Authority will be liable for if the related legal cases, which are deemed to be probable, actually result in an unfavourable outcome. See Appendix 1B.

10. To complete our audit, we sought written representations from management on aspects of the accounts and judgements and estimates made. These representations were provided to us on 30 April 2024.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

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

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

12. Management have made significant judgments and estimates with regard to the following financial statements items:

    - Depreciation of Fixed Assets
    - Provisions for Doubtful Debts on Receivables
    - Post-Employment Health and Pension Benefit Liability

13. We were able to satisfy ourselves regarding the estimated amounts reported in the financial statements.

GOING CONCERN DOUBTS

14. Other than noted in paragraph 8 of this report, we did not become aware of any material uncertainties related to events and conditions that may cast significant doubt on the Office's ability to continue as a going concern.

DEFICIENCIES IN INTERNAL CONTROL

15. We identified a number of significant matters relating to internal controls as part of our audit. See Appendix 2 for a listing of these matters along with management's responses. Note that some of these matters were raised in the prior year but have not adequately addressed yet.

FRAUD OR ILLEGAL ACTS

16. 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. They are also responsible for establishing and maintaining controls pertaining to the Health Authority'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.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

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

DISAGREEMENTS WITH MANAGEMENT

20. We have had no significant disagreements with management regarding the conduct of our audit and the amounts reported on the financial statements.

ANY OTHER SIGNIFICANT MATTERS

21. There were no other significant matters noted during the audit other than those disclosed in Appendix 2.

ACKNOWLEDGEMENTS

22. We would like to express our thanks to the staff of the Health Authority for their assistance during the audit of the 2023 financial statements.

Yours Sincerely,

Sue Winspear, CPFA
Auditor General

APPENDIX 1A – SUMMARY OF ADJUSTED DIFFERENCES

Date	Name	Account No	Debit	Credit
12/31/2023	Linen	50510	30,396.23	
12/31/2023	Health & Safety Expenses	54387		-30,396.23
	Reclassification of operating expense to supplies and material expense			
12/31/2023	Lease expense - Sites/Bldg	58001		-135,022.31
12/31/2023	Miscellaneous Clearing Account	59014		-50,394.89
12/31/2023	Depreciation - Vehicles	60005	1,675.00	
12/31/2023	Depreciation - Furniture & Fittings	60008	45,602.69	
12/31/2023	Depreciation - Other Plant Assets	60012	3,117.20	
12/31/2023	Leasehold Depreciation	60015	135,022.31	
	To adjust depreciation balance to tie to the subledger			
12/31/2023	Buildings	17030	75,959.25	
12/31/2023	Vehicles	17070	20,246.79	
12/31/2023	Computer Hardware	17110		-96,206.04
	To adjust the GL balances to tie to the FA subledger			
12/31/2023	Work/Construction in Progress	17010		-141,078.10
12/31/2023	Service Contracts - Others	54356	141,078.10	
	Adjustment to reclassify laundry services wrongly capitalized (as an asset) as expense.			
12/31/2023	Other Current Liabilities	23400	1,160,189.51	
12/31/2023	Doubtful Debt Expense	58505		-1,160,189.51
	To adjust other current liabilities balance per TB to reflect balance per Subledger			
12/31/2023	Accounts Receivable - Sale of Goods and S	12074		-110,456.38
12/31/2023	Provision for Doubtful Debts	12501		-191,095.78
12/31/2023	Doubtful Debt Expense	58505	301,552.16	
	Adjustment resulting from recalculation of Allowance for Doubtful Accounts			

APPENDIX 1A – SUMMARY OF ADJUSTED DIFFERENCES – CONT'D

Date	Name	Account No	Debit	Credit
12/31/2023	Accounts Receivable - Sale of Goods and S	12074	147,902.26	
12/31/2023	Suspense Account	71100		-147,902.26
	To adjust the AR balance to reconcile with the subledger			
12/31/2023	Long service leave and other le	22100		-36,735.49
12/31/2023	Leave	50014	36,735.49	
	To correct leave accrual balance calculation as of year end			
12/31/2023	Unfunded Healthcare Liability	25300		-74,677,000.00
12/31/2023	Contribution from General Reserve	33003	77,210,000.00	
12/31/2023	Movement in Health Care Liability	50160		-2,533,000.00
	To adjust the post employment healthcare liability balance as at Dec 2023 to reflect the Mercer valuatio			
12/31/2023	Defined Pension Benefit Liability	26100	1,950,979.93	
12/31/2023	Contribution from General Reserve	33003		-1,439,000.00
12/31/2023	Past Service Pension Expense	74100		-511,979.93
	To adjust the post employment pension liability balance as at Dec 2023 to reflect the Mercer 2023			
12/31/2023	Accruals	20150		-75,914.30
12/31/2023	Legal Fees	54264	75,914.30	
	To accrue legal liabilities as of Dec 2023			
12/31/2023	Rights-of-use Assets	16105		-245,705.12
12/31/2023	Accumulated Depreciation Right-of-use A	16112	31,368.96	
12/31/2023	Operating Lease Rental	20110	76,208.24	
12/31/2023	Other non current liabilities	29701	129,585.75	
12/31/2023	Lease expense - Sites/Bldg	58001	39,911.13	
12/31/2023	Depreciation Rights-of-use Assets	60206		-31,368.96
	2023 leases adjustment update			
			81,613,445.30	**-81,613,445.30**

APPENDIX 1B – SUMMARY OF UNCORRECTED DIFFERENCES

Description	Assets	Liabilities	Equity	Income	Expenses
Potential deductible (liability) from legal cases	0.00	(175,000.00)	0.00	0.00	175,000.00
	0.00	(175,000.00)	0.00	0.00	175,000.00
Total	**0.00**	**(175,000.00)**	0.00	**0.00**	175,000.00

Total unrecorded misstatements are below the tolerable error and overall materiality, hence there is no material misstatement in the FS as a whole.

APPENDIX 2 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

#	Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
1. YEAR-END PHYSICAL INVENTORY COUNT PROCESSES ARE TOO MANUAL AND LABOR INTENSIVE, HENCE PRONE TO ERRORS				
a.	We noted during the inventory count and observation that the counting process is very manual and labour intensive, which could lead to discrepancies between recorded and actual inventory balances at yearend as a result of human error. Even though there are controls in place to address potential errors in the count, the excessive reliance on manpower creates a very tedious counting process. Hence, it is not sustainable to ensure a complete and accurate inventory count at all times.	***Risks/Implications***: Potential material inaccuracies in stock count could impact the inventory balance reported in the financial statements. Also, incomplete and inaccurate stock count and inventory data could negatively impact operational activities, management planning and decision-making. This could also result in material misstatements of the financial statements. ***Recommendation:*** With the implementation of the Oracle Fusion inventory management system, management should explore and implement the relevant modules in the system that significantly automate the inventory management process at the Health Authority. For example, applications/modules in the system that tracks material at every stage of the product	Accepted In order to mitigate the risks as indicated HSA intends to; 1. Implement a barcoding application to improve the business process in 2024 and reduce human errors. 2. A daily inventory application App has been deployed to track and report stock levels in the various stock holding areas. 3. The management of inventory is being complemented by automation of inventory management at the various inventory locations using the FUSION system. 4. The year-end count process is being enhanced to include system-generated count sheets to improve controls over completeness.	*Q 3 2024* (items 1–2) *Q 2 2025* (items 3–4)

#	Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
		life-cycle and across all departments. Inventory applications/modules that help to manage warehouse activities such as replenishing inventory, counting stock, moving materials within the warehouse and issuing materials to the various departments, as well as capturing actual shipping costs for materials purchased for accurate pricing of items and financial reporting.	5. Implement the freight and cost accounting module in Oracle Fusion to facilitate better costing and usage reporting.	
	2. TIMELY APPLICATION AND REVIEW OF UNAPPLIED PAYMENT RECEIPTS - *REITERATION*			
a.	**Long outstanding Accounts Receivable (AR) credits (GL 12403 account)** As at 31 December 2023, total outstanding AR credits amounted to $14.2 million (2022: $10.6 million). The total amount is recorded in GL# 23400 and presented 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	***Risks/Implications***: The Health 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 in its AR collection activities. This could also impact the amount of provisions made for doubtful debt accounts. ***Recommendation:*** Management should ensure timely reviews and application of payment to the related AR to address the significant AR credits at year-end.	Accepted. A number of strategies are being employed and continue to be explored to mitigate the identified risks including; 1. using different billing methods and workflows based on financial class of a transaction. 2. implementation of a verification team to check the eligibility. 3. Review and improve business and IT processes around payments.	Q 1 2026 (requirement of FTEs to be approved during next budget cycle)

#	Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
	• Patient paid deposit upfront and left without being seen or cancelled appointment.		4. Where refunds are due to patients, these are communicated and processed in a timely manner.	
3. ANNUAL REVIEW OF AR AGING AND BAD DEBT PROVISION RATES				
a.	**Annual review of accounts receivable ageing and bad debt provision rates.** We noted through our audit procedures that the Health Authority has a policy to review the bad debt provision rates based on the AR ageing report every 5 years. We noted in the audit that the Health Authority did not carry out a review in the current year due to a lack of resources, even though the next review was due as of the December 2023 financial year. We note further that, in consideration of the requirements of the IFRS 9 which mandates the recognition of impairment losses on a forward-looking basis, thus, recognizing impairment loss before the actual credit loss event occurs, this policy approach is not sufficient to make the Health Authority bad debt provision approach compliant with the accounting standard.	***Risks/Implications***: 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 perform 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 setting the provision rates.	Accepted. The relevant departments will improve business process to ensure the half-yearly and annual bad debt review is done in compliance with the bad debt policy and best practice.	Q 4 2024