

Annual Report - 31 December 2018

Providing Value to the People of the Cayman Islands





To help the public
service spend wisely

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FOREWORD BY THE AUDITOR GENERAL

Providing Value to the People of the Cayman Islands

I am delighted to present the Annual Report of the Office of the Auditor General (“Office” or “OAG”) of the Cayman Islands for the year ending 31 December 2018 in accordance with Section 69 of the *Public Management and Finance Law (2018 Revision)*.

It remains a privilege to lead the Office ensuring that it continues to deliver value to the people of the Cayman Islands through playing its part in improving Government’s financial management and the delivery of public services.

My Office plays a critical role in the governance framework of the Cayman Islands and holds government to account, especially by working through the Public Accounts Committee (PAC).

The PAC was very active during 2018 and I was pleased to support their meetings and to see the PAC choosing to recognize the improvement in the Government’s financial management through their first certificate awarding ceremony in January 2018 in which the PAC



recognized those public sector entities that received unqualified audit opinions on their financial statements for the 2015-16 financial period.

Improvements in the timeliness and quality of financial reporting continue and the next step is to deliver an integrated financial and non-financial performance reporting framework to help with accountability and for Government to make rational and well-informed decisions to better serve the people of this country.

During 2018, we saw the positive impact of our audit work demonstrated in a variety of ways from the improvement in the timeliness and quality of government entities’ financial reporting through to new laws and changes in public services that drove better accountability and better value for money in the use of public resources. It is particularly worth noting that the 2016 *Procurement Law* introduced by Government following several critical reports

from this Office on Government procurement practice took effect on 1st May 2018. The law provided a legal framework which should better ensure value for money in government purchases going forward and it also provided for a central procurement office and departmental and public procurement committees to drive good practice and provide better governance and oversight of public tendering.

This has been another challenging and successful period for the Office. We have maintained the pressure on Government to bring its financial statements up to date to provide stakeholders timely and credible information about the financial position of Government and its entities. We have delivered a number of performance audit reports on important matters like how Government manages its workforce, its use of consultants and its redevelopment of Owen Roberts International Airport. We have also undertaken our second annual follow up report on past PAC recommendations to better ensure Government takes the necessary action to improve their business.

Our strategic plan (2015-2019) includes three objectives for the Office:

- **Strengthening** the accountability, transparency, integrity and delivery of **public services** through high quality audits
- **Demonstrating** ongoing **relevance** to the people of the Cayman Islands, the Legislative Assembly and other stakeholders
- Encouraging improvement through **leading by example**

In late 2018, we started working on a new five year strategic plan to guide the work and focus of the Office and ensure we push ourselves to continue to lead by example by further improving our audit practice and corporate functions. The self-assessment of our own performance based on international guidance provided by the International Organisation of Supreme Audit Institutions (INTOSAI) was completed and this has helped us identify areas of focus for our new strategic plan.

The achievement of the three objectives mentioned is driven by the core activities of the OAG: the financial audits of Government and its entities; and, performance audits reporting on the economy, efficiency, and effectiveness of government's activities and public spending. We deliver a greater impact by working closely with the PAC in holding Government to account for its spending and for providing value for money in public services and supporting PAC is always a key focus of mine.

Our cross government perspective places us in a powerful position to understand the systemic issues that prevent government from achieving its objectives. Therefore, we have a great opportunity to work collaboratively with government officials to provide a greater impact by adding value and looking for ways to support Government as it implements its change and reform agenda, and delivers a number of key infrastructure projects.

The Office's ability to achieve its objectives depends on the efforts of many people.

For example, legislators support the work of the Office by providing the funds needed to audit the Government. Adequate funding helps the

Office meet legislators' and the public's expectations. Also, the legislators' review of the reports of the Office through the PAC helps ensure that our work adds value by holding government officials to account and recommending improvements.

Government officials and our appointed auditors that we use for several audits also contribute to the Office's success. Without the co-operation and assistance of government officials we would be unable to report on the quality of their management to the Legislative Assembly.

This annual report completes the accountability cycle that began when the Office published its 2018 Annual Budget Statement in November 2017. Both documents help legislators and the public understand how we have assessed our performance. A further objective of this report is to communicate who we are and what we do, and to encourage the reader to understand our role and our desire to deliver value to the people of the Cayman Islands by ensuring public funds are managed in a transparent and accountable way.



Finally, I want to thank the dedicated team of staff who contribute their experience, skills and hard work to fulfill our mandate in providing assurance and advice to the Legislative Assembly and the Government. The reports issued to the Legislative Assembly are the result of their hard work.

I want to give a special thank you to Kim Lutz, our Administrative and Finance Manager who left the OAG in August 2018 after 10 years of dedicated and diligent service and welcome Katrina Thomas as her replacement and also Brittany Bodden and Erin McLean who joined us

in Spring 2018 as our first ever professional audit trainees whom we will support through to full qualification.

I look forward to continuing to lead the Office, so that we continue to play our part in helping the public service spend wisely for the present and future benefit of the people of the Cayman Islands.



Sue Winspear, CPFA

Auditor General

29 March 2019

ABOUT THE OAG

PUBLIC SECTOR AUDIT

Those responsible for public business and handling public money must be held accountable, in accordance with the law and proper standards, to those who use and pay for the services provided. Public resources should be safeguarded, properly accounted for and used economically, efficiently and effectively.

Ministers, boards, chief officers, managers and public officials have the primary responsibility for ensuring that public business is conducted in accordance with the law and proper standards, and that public money is handled with integrity and spent appropriately. Public bodies and those individuals responsible for conducting their affairs must discharge this accountability by establishing and maintaining proper governance arrangements and effective stewardship of the resources at their disposal.

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing an assessment of matters such as the legality, propriety, performance and the economic, efficient and effective use of public money.

Public sector audit is an important link in the chain of accountability. It strengthens accountability, both upward to the elected

The Cayman Islands Constitution

The Constitution requires that there shall be an Auditor General who shall have *“The power and responsibility to audit the public accounts of the Cayman Islands and the accounts and financial dealings of all authorities, offices and departments of Government and of all courts, and power to undertake value for money investigations in respect of the activities of such authorities, offices and departments”*.

It further states that *“In the exercise of his or her functions, the Auditor General (and any person acting on his or her behalf in the exercise of those functions) shall not be subject to the direction or control of any other person or authority, save that the Auditor General is answerable to the Public Accounts Committee of the Legislative Assembly and must attend upon the Committee at its request.”*

members who provide resources and are representatives of the people, and outward to citizens and users of public services. Public sector audit adds value, not only by reviewing and reporting on what happened, but also by looking forward, identifying where improvements can be made, and promoting good practice. In this way public sector audit contributes to improved standards of governance, better management and decision making, and more effective use of public money.

WHO WE ARE AND WHAT WE DO

For the parliamentary system of government to work properly, it must have the public's confidence. To merit this confidence, the Government's programmes must be effective, transparent, and accountable to the public. One important responsibility of the Legislative Assembly is to hold the Government accountable for its management of public resources. This work is conducted primarily through the PAC.

The Office of the Auditor General contributes to the accountability process as the auditor of the Government including all of its agencies. The Office helps the Assembly hold the Government accountable for how it manages public resources by undertaking financial statement audits for the entire public sector and across 42 public sector entities and performance audits which promote the economic, efficient, and effective use of public resources.

The work and reports of the Office promotes confidence in the Government. Legislators and the public are provided with critical information on whether the Government's financial and other reports are reliable, the Government uses effective processes to safeguard the resources with which it is entrusted, and the Government has complied with governing laws, regulations and other relevant authorities.

Also, the Office does the following:

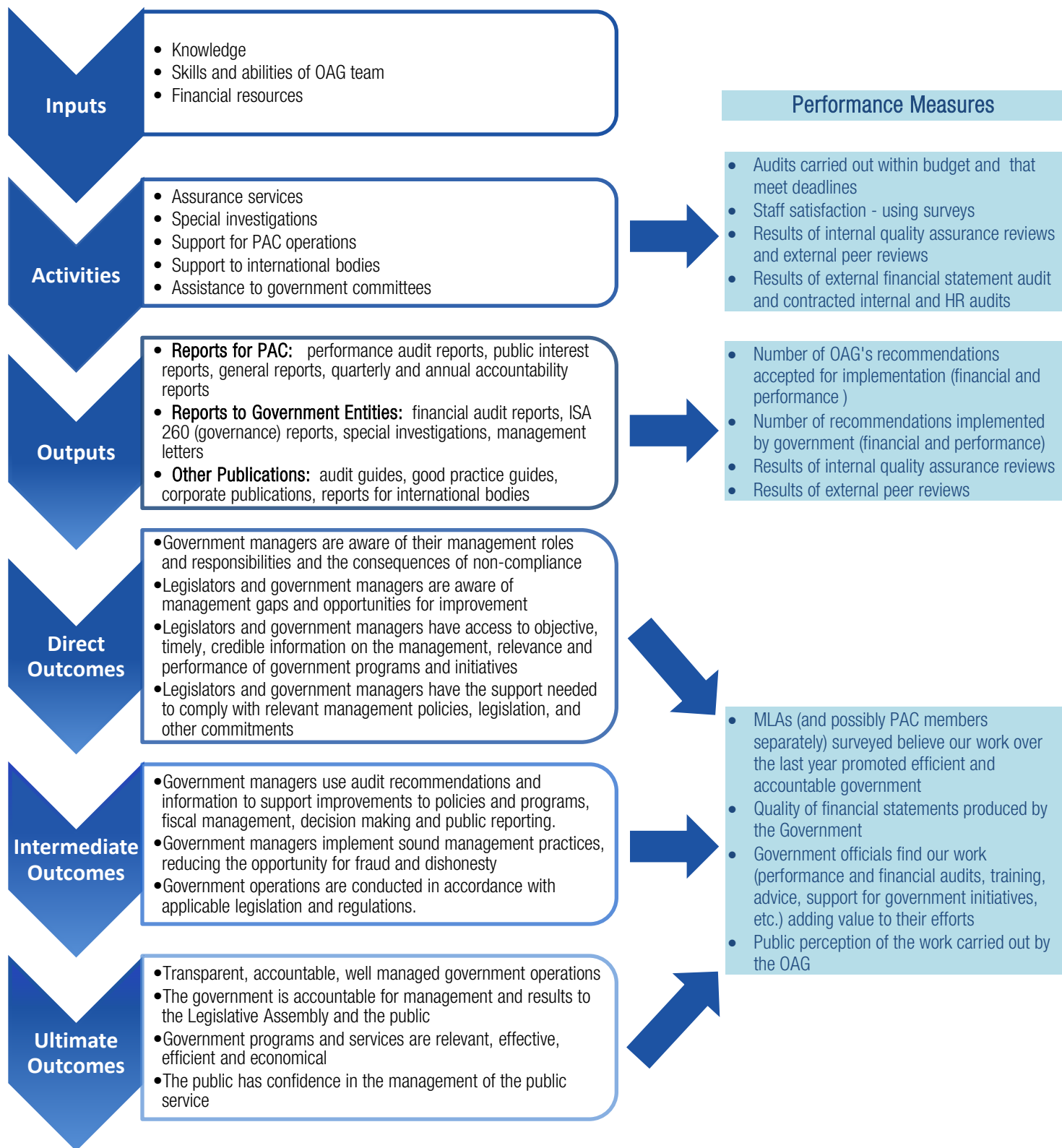
- supports the PAC in carrying out its mandate
- makes recommendations for improvements to the Government's management of public resources

- encourages discussion and debate about public sector management and accountability issues
- provides advice to government committees
- encourages professionalism in the public service
- adheres to the professional assurance standards as published by the International Audit and Assurance Standards Boards and the INTOSAI.
- plays an active role in the Caribbean region by being on the Executive Committee of Caribbean Organisation of Supreme Audit Institutions ("CAROSAI")
- plays an active role in the global public service audit field through serving on two of the International Organisation of Supreme Audit Institutions ("INTOSAI") Committee; one of which leads the development of global auditing standards and the other builds global audit capacity.

The work and reports of the Office contributes to informed decision-making in government and the use of business-like processes. This in turn helps the Government use sound management practices to achieve good results with public resources.

Exhibit 1 shows the broader picture of the Office's outputs and outcomes through a depiction of our performance framework.

Exhibit 1 - OAG Delivery Model



OUR STRATEGY

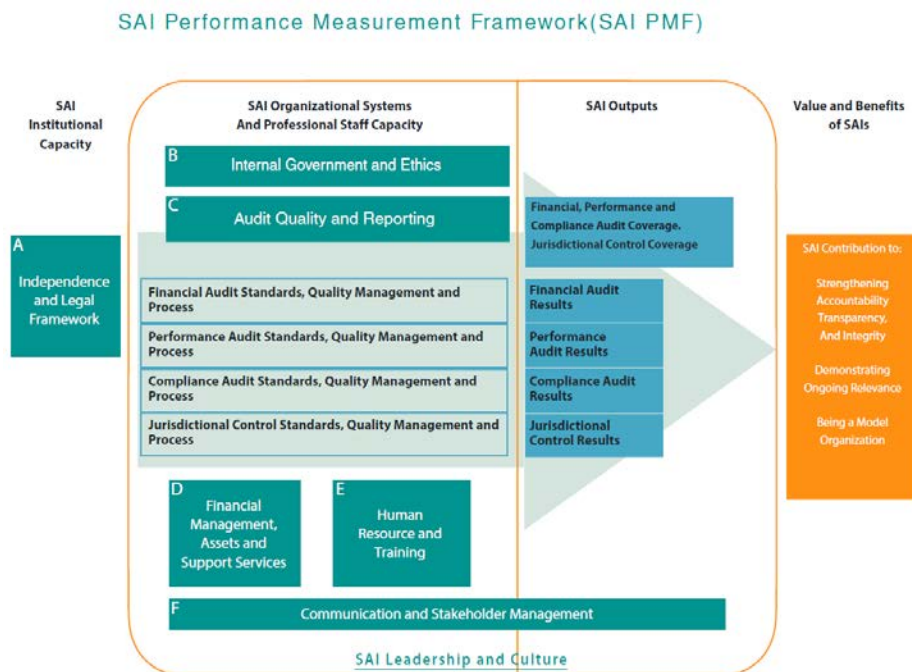
In 2017, the Office undertook a self-assessment of our own performance management framework based on international guidance provided by INTOSAI to supreme audit institutions (see Exhibit 2 below).

During 2018 we took this self-assessment information and undertook an exercise to refresh our strategic plan, including refining our vision, mission and core values, and seeking views from a range of stakeholders.

As at the 31 December 2018, the 2019 to 2023 strategic plan was still being worked on which sets out our strategic objectives of: strengthening public services; demonstrating relevance; leading by example; and developing our people.

We are monitoring our progress and performance against the 2015 to 2019 strategic plan, which provides a basis for stakeholders to understand our performance.

Exhibit 2:



Source: SAI Performance Measurement Framework

Assessing our performance plays an important part in our efforts to help us gauge where we stand for our own internal development purposes, and it also enables us to demonstrate our credibility with external stakeholders.

In addition, the above performance framework helps us to assess the strength of our Office and to assess our performance holistically. The framework covers our independence and legal framework, internal governance and ethics, audit work, and relations with external

stakeholders. This framework recognizes the fact that an Auditor General's Office is a complex institution and that performance in these different areas are interlinked.

Under the current and proposed strategic plan the core activities of the OAG will continue to be the financial audit of Government and its agencies and performance audits reporting on the economy, efficiency, and effectiveness of public spending to the Legislative Assembly. Holding Government to account for its spending and for providing value for money in public services will remain a key focus.

There are some fundamental drivers that we have started to implement and others to be implemented over the next few years so that we can have a greater impact by providing added value.

For example, we have already started working more closely with the PAC so that our work focuses on their highest priorities; and undertaking audit work on major projects and programmes earlier in their lifecycle to better ensure the Government delivers successfully and cost effectively implements their policies.

We look for opportunities to turn our audit knowledge and intelligence into advice and good practice in order to support the public service.

We will continue to deliver a quality service to the Legislative Assembly and the entities we audit, and we will pursue our objectives as we carry out our programme of work as an independent office.

During 2018, the Office participated in an employee engagement survey that was

conducted by the civil service. The survey indicated to us that our employees are well engaged and as an Office we are significantly ahead of the Cayman Islands Government. See the results of the survey under Leading by Example section of the report on page 21, Exhibit 6. This survey provides us with a benchmark to ensure our employees are engaged and that we are continuing to develop our employees.

In addition, during the latter half of 2018, we began formulating a holistic operational plan based on our strategic objectives.

Exhibit 3 - Strategic Plan Objectives

Strategic objectives 1 to 3 are the strategic objectives in our current strategy and strategic objective 4 is a new strategic developed during the 2018 which will form part of our updated strategic plan 2019-2023.

<p>1. Strengthening Public Services</p> <p>We will help strengthen accountability, transparency, and the delivery of services in the public sector.</p> <p>As the auditor of government spending, our work gives us direct interaction and insight into how the public sector is operating and changing. As well as having direct interaction with every public entity each year, we also have an independent reporting role enshrined in legislation. We provide a credible and reliable source of information to government, legislators and society and can contribute to strengthening the public sector through our audits, by using our powers of reporting, and our interaction within and outside the public sector, on matters such as governance, accountability, financial sustainability and the efficient, effective and economic use of resources.</p>	<p>2. Demonstrating Relevance</p> <p>In our work we will demonstrate our relevance by taking into account the views of our external stakeholders and those who use public services.</p> <p>We place great importance on relationships with all of our stakeholders: Legislative Assembly, public entities, elected and appointed officials, professional organisations, and the general public of the Cayman Islands.</p> <p>We want to be responsive to the challenges faced by the public, the expectations of different stakeholders, and the emerging risks and changes in the environment in which we conduct our work. It is also important that we continue to have a dialogue with stakeholders about how our work can facilitate improvement in the public sector.</p>	<p>3. Leading by Example</p> <p>We will be agile, adapt to change and lead by example as individuals and as an organisation.</p> <p>Staying the same or standing still is not an option for our Office. In our fast changing and evolving environment, auditing and the role of the auditor will continue to develop and change. International trends, such as rapid changes in technology, are also changing expectations among end users of audit and assurance information. Our ability to develop, adapt and be agile is important to ensuring we remain relevant and that we can remain a model organisation which leads by example both locally, regionally and internationally.</p>
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<p>Proposed new strategic objective: 4. Developing our People</p> <p>We will continuously invest in OAG staff through targeted professional development, mentoring, and an appropriate reward package (recognising we are constrained by being part of the civil service).</p> <p>To effectively deliver on our mandate, it is essential that the Office has a motivated, skilled and high performing workforce that can effectively meet the challenges demanded by our diverse range of work.</p> <p>To meet our profession's requirements, we are also obligated to ensure that our staff maintain and enhance certain professional skills, knowledge and capacity to carry out their duties.</p>

OUR WORK

In holding the Government to account for how it manages and spends the scarce resources at its disposal, we balance this work with the need to support Government to progress so that the programs and services it provides to stakeholders continuously improve.

FINANCIAL AUDIT

Our financial audit work helps the Legislative Assembly hold organisations to account for over \$905 million of annual expenditures and over \$2.6 billion in total assets and \$1.3 billion in total liabilities. Our audits provide independent assurance to the Legislative Assembly on how public money has been spent, how revenue has been generated, whether assets have been safeguarded and liabilities are fully recognised.

The findings and recommendations from our financial audits should help focus attention and stimulate improvement in governance and internal controls, enhance financial management and the quality of information that government entities use to make decisions.

In 2018, we carried out financial audits of 44 individual entities and on the consolidated financial statements of Government, and we also audited the associated Schedule of Appropriations. During 2018, there has been a slight decrease in the backlog of audited financial statements and annual reports to be tabled in the Legislative Assembly. As at 31 December 2018 there were only 8 financial statement audits outstanding (31 December

2017: 9). The prolonged delays in completing the financial statement audits were typically resulting from the client wanting to address areas of qualification to improve their audit opinion or delayed because of investigations that arose out of the audit and needed concluding before the audit could recommence.

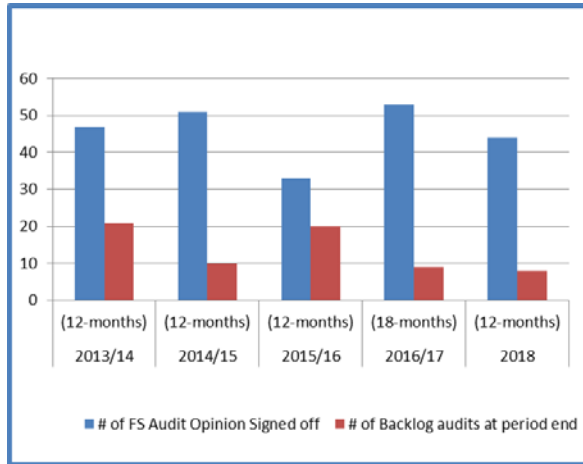
ENTITY FINANCIAL STATEMENTS

During 2018 we worked cooperatively with Government to try and clear the backlog of audits and also ensure the 2017 financial statement audits were carried out in a timely manner. For the 2015-16 financial statements there was only CIAA and CINICO that remained to be completed. For the 18-month period ending 31 December 2017 there were 5 entity financial statement audits to be completed, which were: CIAA, CINICO, Ministry of Education, Ministry of Health, Port Authority and the Turtle Centre. The Deputy Governor and our Office maintained pressure on entities and their senior management, to ensure that there was a concerted effort by entities to complete all outstanding financial statements by 31 December 2018. However, this target was not quite achieved as mentioned above with 8 outstanding financial statement audits.

We issued a total of 44 financial statement audit opinions on individual entities during 2018 (2016-17 (18 months): 53). Of these 38 were for the most recent year (2016-17: 36). In Exhibit 4 below we show the trend of the number of

financial statement audit opinions we have signed off for each financial period.

Exhibit 4: Number of financial statement audit opinions signed off during the period and number of backlog audits at period end



As Table 1 demonstrates, there is still a way to go to achieve a position where all the financial statements audits are completed with within the statutory timetable the entities Annual Reports are made public in a timely manner.

Table 1 – Current and prior year audits

Year	Number of Entity Audits	Audits Completed	Audits Outstanding	Annual Reports / Financial Statements Tabled
2016-17	44	38	6	14
2015-16	42	40	2	30
2014-15	42	42	0	31
2013-14	42	42	0	36
2012-13	43	43	0	35

ENTIRE PUBLIC SECTOR (EPS) FINANCIAL STATEMENTS

These statements include all the executive expenditures of government which includes transfer payments, executive expenses and loan transactions which are not included in any of the individual entity financial statements. As well, the EPS financial statements include the coercive revenues (meaning revenue earned by the core government using the coercive power of the state and for which no direct exchange of service occurs).

The 31 December 2017 18-month period EPS financial statement audit was still in progress due to the backlog of some of the entity audits.

In Table 2 below we have outlined the progress made in the entire public sector financial statements over the years from a disclaimed opinion to an adverse opinion in the past few years. Also, the EPS financial statements are starting to be signed off in a timelier manner and tabled within the Legislative Assembly.

Table 2 – EPS Audit Progress

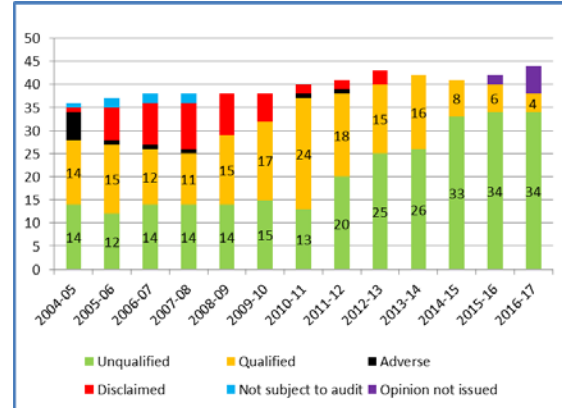
Year	Date audit completed or progress	Audit opinion	Tabled in the Legislative Assembly
2016-17	In progress		
2015-16	19 October 2017	Adverse	16 March 2018
2014-15	7 December 2016	Adverse	27 March 2017
2013-14	30 September 2015	Adverse	24 June 2016
2012-13	1 June 2015	Disclaimed	
2011-12	1 June 2015	Disclaimed	
2010-11	25 July 2013	Disclaimed	9 April 2014
2009-10	17 November 2014	Disclaimed	
2008-09	6 May 2014	Disclaimed	8 December 2014

IMPACT OF OUR WORK

Our work is having an impact as the timeliness and quality of financial reporting is improving as can be seen in Exhibit 5. The quality and timeliness of accounts have improved considerably since 2010 when the state of financial reporting was in a crisis. However, significant work is still required before financial accountability is fully restored and the Government has reliable and timely financial information for accountability and decision making.

We will continue working with the Government to improve the quality and timeliness of financial reporting, so that the goal of having accountability in line with the statutory requirements is achieved.

Exhibit 5: Quality of all Entity Financial Statements



AUDITING STANDARDS AND ETHICS

We conduct our financial audit work in accordance with International Standards on Auditing (ISAs), also paying regard to International Standards of Supreme Audit Institutions (ISSAIs). The audits are delivered by staff who are qualified members of professional

accountancy bodies or working under a qualified member. During the year fourteen financial statement audits were conducted by local audit firms on behalf of the Office of the Auditor General for the 31 December 2017, 18-month period end. See Appendix 1 for a listing of who conducted these audits.

As public auditors we have to ensure our independence and effectiveness through the application of a Code of Conduct prescribed by the International Federation of Accountants and ISSAI 30, and the code of ethics for Supreme Audit Institutions. The Auditor General performs the role of the ethics partner and provides advice on compliance with the standards.

PERFORMANCE AUDIT

A fundamental part of our remit is to conduct audits on whether government carries out its business economically, efficiently, and effectively. Performance auditing is carried out in accordance with the International Standards on Auditing using guidance from the INTOSAI. Individual performance audits are based on a planned and published programme of work. The latest audit performance audit work programme was refreshed in October 2018 and can be found on our website ([Performance Audit Rolling Programme-2019-2023.pdf](#)).

In complying with the standards, the OAG follows a set methodology to ensure that the audits are appropriately planned, executed, and reported. While there are several key elements of the methodology, the clearance of the draft audit reports with senior government officials is an important step that is carried out with every audit. Through this, senior officials including

the Deputy Governor confirm the factual accuracy of the information in the report before it is finalized and issued to the Legislative Assembly.

During 2018 we issued five reports:

- Government's use of consultants and temporary staff (February 2018);
- Workforce planning and management in Government (April 2018);
- Owen Roberts International Airport (ORIA) Terminal Redevelopment project: Progress update as at 30 August 2018 (August 2018);
- Follow-up on Past PAC Recommendations (October 2018); and
- Fighting Corruption in the Cayman Islands (November 2018).

As at 31 December 2018, work was underway on an additional six performance audits and one public interest report. These were:

- Key Management and Board Remuneration in Statutory Authorities and Government Companies during 2016-17 – Public Interest Report;
- Customs;
- Government's use of Outsourced Services;
- School Education;
- Improving Financial Accountability and Transparency; and
- Efficiency of Summary Court Cases.

Further details of the reports issued and those in progress can be found in Appendix 2.

IMPACT OF OUR PERFORMANCE AUDIT WORK

Our performance audit work is having an impact in government improving its governance structures, financial management and helping the public service become more efficient, effective and achieve better value for money.

For example, the publication of *Government's use of consultants and temporary staff* received



considerable media coverage and helped to raise awareness of how effectively Government procures consultants to ensure that it receives value for money; and how well it manages

those consultants. Positive highlights included the improvement of procurement practices since the OAG last reported on procurement in 2011, including setting up a Central Procurement Office and developing new procurement policies and procedures manuals. The Legislative Assembly also passed the *Procurement Law 2016*, which came into force on 1 May 2018.

However, the report noted that Government needs to better demonstrate the value for money obtained from using consultants as most of the consultant contracts reviewed did not have a business case to justify the need and those that had been prepared could have been better.

Government agreed to monitor its spending on consultants and temporary staff and provide management information that will help inform decisions on how best to obtain the skills and

knowledge that it needs while obtaining value for money.

In addition, Government agreed, in principle, that as part of the 2019 budget planning they would better plan for the use of consultants and integrate this into their workforce planning and budgeting processes.

Our report supported the Public Accounts Committee by setting out priority problems that government needs to address and PAC held witness hearings on this report in May 2018.

Our report on *Workforce planning and management in Government* also received



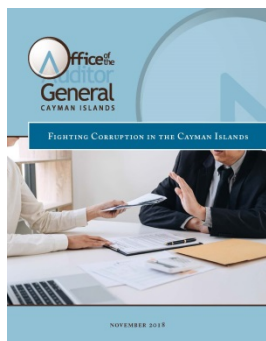
considerable media coverage and raised awareness that government needs an organisation-wide workforce plan for the whole of the Government. With the Cayman Islands

Government launching its new five-year strategic plan that sets out the ambition of becoming a world-class civil service, it was noted that government does not have a plan that sets out its workforce needs in the longer term to ensure that it has the right people with the right skills in place to achieve its strategic objectives and deliver the services that will be needed in the future.

Government accepted a recommendation that they should develop a workforce planning framework, which includes guidelines and tools to ensure a consistent workforce planning is adopted across government. It is anticipated Government will develop and adopt workforce plans on a rolling basis starting in 2020.

This report on workforce planning supported PAC by setting out priority problems that government needs to address and PAC held witness hearings on this report in October 2018, which helped to inform the debate.

Our report on *Fighting Corruption in the Cayman Islands*, which was issued in November



2018 and made public subsequent to year end raised awareness of the national institutional framework to fight corruption in the Cayman Islands and received favourable media attention.

The Cayman Islands have a wide range of laws that contribute to the fight against corruption, including the Anti-Corruption Law; however, a key component in the legislative framework is missing. The *Standards in Public Life Law*, which was passed by the Legislative Assembly in 2014 has still not been brought in to force.

Some of the recommendations within the report were acted on quickly by government.

We have noted the following impact the report has had by:

- generating public debate on the implementation of *Standards in Public Life Law*;
- government extending its Anti-fraud policy to Statutory Authorities and Government Companies; and
- the Deputy Governor encouraging all civil servants to take the online CIG Anti-fraud training by providing a day

off in December 2018 if this training was completed.

Subsequent to the 31 December 2018, PAC has held witness hearings on *Fighting Corruption in the Cayman Islands*.

SUPPORT AND ASSISTANCE TO THE PAC AND THE LEGISLATIVE ASSEMBLY

We work closely with the PAC to promote effective management and greater accountability of public resources.

During 2018 PAC was under the Chairmanship of the Hon. Ezzard Miller and the rest of the committee members consisted of: Ms. Barbara Connolly, Messrs. Bernie Bush, Austin Harris, and Chris Saunders.

During 2018 PAC held 7 administrative meetings and 11 days of public hearings on four of our reports to discuss and gather further evidence before preparing their own reports to the Legislative Assembly. Members of our Office were in attendance at all of those meetings.

PAC reviewed one general report called the *Financial Reporting of the Cayman Islands Government General Report 2015 and 2016 financial audits* (issued in December 2017 to PAC).

From the *Financial Reporting of the Cayman Islands Government General Report 2015 and 2016 financial audits*, PAC held a recognition ceremony in January 2018. PAC handed out plaques as tokens of appreciation and recognition “for the civil service’s hard work, commitment and success” to 30 out of 36 public entities comprising core government, statutory authorities and government companies for

attaining unqualified financial audits for the financial year ending 30 June 2016.

In addition, from this General Report, PAC also called in entities who did not receive an unqualified opinion to discuss their qualifications and how they were going to overcome them. PAC reviewed the following entities financial statements:

- Entire Public Sector 30 June 2016 financial statements;
- Judicial Administration 30 June 2016 financial statements;
- Cayman Islands National Museum 30 June 2016 financial statements;
- Cayman National Cultural Foundation 30 June 2016 financial statements;
- National Gallery of the Cayman Islands 30 June 2016 financial statements; and
- Maritime Authority of the Cayman Islands 30 June 2016 financial statements.

In addition, PAC reviewed the Information and Communication Technology Authority 2015-16 financial accounts even though a clean audit opinion was provided.

PAC received five performance audit reports during 2018 (see above and Appendix 2 – for detailed information on the reports) and held public witness hearings on two of those reports and one on a report issued in the previous year. Public hearings were held on the following reports:

- *Major Capital Projects - Follow Up Oct 2017* (issued October 2017);
- *Government's use of consultants and temporary staff; and*

- *Workforce planning and management in Government.*

PAC delayed any public hearings on the *Owen Roberts International Airport (ORIA) Terminal Redevelopment project: Progress update as at 30 August 2018* report due to the commercial sensitivities within the report at the time.

On the 16 March 2018, PAC tabled two of its own reports in the Legislative Assembly on the witness hearings held in 2017 for:

- *Social Assistance Programmes – Follow up on Past PAC Recommendations; and*
- *Cayman Islands Health Services Authority 30 June 2016 Financial Statements.*

On the 6 September 2018 and 22 November 2018, PAC tabled four of its own reports in the Legislative Assembly on the witness hearings held in 2018 for:

- *Financial Reporting of the Cayman Islands Government General Report 2015 and 2016 financial audits;*
- *Major Capital Projects - Follow Up Oct 2017;*
- *Government's Use of Consultants and Temporary Staff; and*
- *Information and Communication Technology Authority 2015-16 financial accounts.*

COMMUNICATION AND ENGAGEMENT WITH STAKEHOLDERS

It is important that we engage and communicate effectively with our clients about our work and activities, and are proactive in providing professional advice to Government without compromising our independence or duties to the Legislative Assembly. These activities help overcome resistance and remove barriers to improvement.

During 2018 the OAG team met and consulted with a large number of stakeholders. We provided information and advice on many issues around areas including financial accounting, procurement, governance and programme management. Specific activities undertaken included:

- The Auditor General held fortnightly meetings with the Governor and monthly meetings with the Deputy Governor and met with the Chief Officers of the various Ministries and Portfolios individually and with several CEOs/Managing Directors of the SAGCs.
 - The Auditor General and Director of Performance Audit also met with many of the Chief Officers and CEOs/Managing Directors to discuss issues and risks helping to inform our Rolling Performance Audit Programme.
 - The Director of Financial Audit and his team also met with the Deputy Governor and other key stakeholders throughout Government to apprise them of financial statement and compliance issues noted during the financial statement audits.
- The Office also continued to maintain strong working relationships with key partners such as the Anti-Corruption Commission, the Financial Crimes Unit, Internal Audit Services, CIIPA and private sector audit firms.

The Auditor General, in February 2018, issued a press release and the Director of Performance Audit conducted a Cayman 27 news interview where the public were requested to provide input into the Office's new performance audit programme. The public feedback along with PAC and Government's views helped OAG determine the performance audits that will be carried out during 2018 and an indication of potential performance audits to be carried out in the period to 2022. Public input into our performance audit programme of work helps OAG ensure it focuses on things that add most value to the people of Cayman.

We also engage with the wider public through social media, such as our through our:

- website (www.auditorgeneral.gov.ky/);
- Facebook page (www.facebook.com/Office-of-the-Auditor-General/); and
- newly developed LinkedIn account (<https://www.linkedin.com/company/office-of-the-auditor-general-cayman-islands>)

REGIONAL AND INTERNATIONAL WORK

The OAG is a member of Caribbean Organisation of Supreme Audit Institutions (CAROSAI) which works to support and enhance the role of public audit offices throughout the region. The mission of CAROSAI is to *“contribute to its members becoming professional SAIs by supporting and promoting the strategic management, performance measurement and reporting in SAIs; implementation of ISSAI’s for high quality audits and enhanced SAI-Stakeholder engagement for greater audit impact.”*

CAROSAI relies significantly on the contribution of its membership to support its activities. The OAG is a proactive member, with the Auditor General sitting on the Executive Council and the Deputy Auditor General chairing the Communications sub-committee and the Director of Financial Audit chairing the Institutional Strengthening sub-committee.

The Office in its current strategic plan cited a goal of supporting the development of public audit across the Caribbean region. This objective arose out of the Office being seen, by International donor agencies, as a leader in public sector auditing our desire to assist in the capacity development of regional public audit offices and a mechanism for developing our staff.

Therefore during 2018 period we have taken on an active role in a move towards fulfilling this objective by:

- In March 2018, the Director of Financial Audit, Patrick Smith, represented CAROSAI in the IDI’s strategic workshop in Norway on

developing SAI auditor competencies and, in time, a professional certification programme for auditors against these competencies. This trip was funded by the IDI.

- In May 2018, the Auditor General went to Luxembourg to represent CAROSAI at the INTOSAI annual Professional Standards’ Committee (PSC). This Committee oversees the setting of global professional audit standards.
- In August 2018, the Auditor General and the Director of Financial Audit represented the Office at CAROSAI’s 30th Anniversary conference in Kingston, Jamaica. At the Anniversary, the Auditor General spoke about our work on countering corruption.



Auditors General from the Caribbean Region who attended the 30th Anniversary of CAROSAI

- In October 2018, the Office hosted an IDI workshop on Strategic Performance Measurement and Reporting (SPMR) programme. Participants from our Office and other Caribbean countries took part in the workshop.



**Winston Sobers, Audit Manager,
presenting at IDI workshop**

- Abutted to the PSC meeting in May and again in November 2018, the Auditor General went to Luxembourg to represent CAROSAI on the Task-Force on International Auditor Professionalisation (TFIAP). This small international working group developed a set of auditor competencies and draft guidance on them to help INTOSAI with developing auditor professionalization around the world. These should be adopted at the next INCOSAI conference as standards or guidance (to be determined) for all countries to apply and follow. There are four pillars to the competencies; cross cutting ones which the Task Group have developed and specific ones for the financial, performance and compliance audit disciplines which the IDI have been commissioned to develop by the task group and where the Director of Financial Audit is supporting the IDI in developing the ones for financial audit.

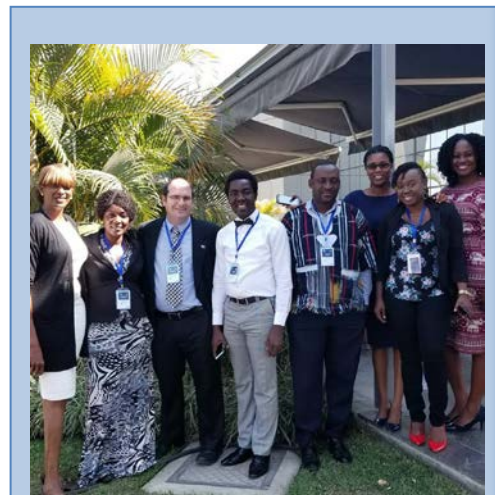
OTHER INTERNATIONAL WORK

In April 2018, the Director of Performance Audit, Angela Cullen, and Brittany Bodden, Professional Audit trainee, attended the UK Overseas Territories Performance Audit

Workshop in Miami which focused on working through the steps involved in undertaking a performance audit on a capital project. Five Overseas Territories were represented and Angela supported staff from the UK National Audit Office in delivering this training. This trip was largely funded by the UK Government.

A second workshop was held in London, UK during December 2018; on undertaking a performance audit on Major Capital Projects. This second workshop was to complete the training and report back on the progress with audits. Angela co-presented at the workshop along with others from the National Audit Office in the UK.

Garnet Harrison, Gay Frye and Zenobia Badley went to Lusaka, Zambia for two weeks in August for the IDI fighting corruption work programme. Garnet attended as a facilitator and course mentor and Gay and Zenobia as the OAG audit staff leading the work on the Cayman Islands Counter corruption performance audit. This report was provided to the PAC in November 2018.



Some of the participants from SAI Cayman, SAI Liberia and SAI Jamaica

OUR ORGANISATION

Creating a culture of integrity and accountability not only improves effectiveness, it also generates a respectful, enjoyable and life-giving setting in which to work.

Tom Hanson, Ph.D.; Birgit Zacher Hanson, M.S., M.C.C., *Who Will Do What by When?*

LEADING BY EXAMPLE

As the country's auditor reporting on how scarce public resources are used, it is very important that we conduct ourselves by leading by example.

During the year we continued to work openly and transparently, promoting good governance, and upholding and promoting the standards expected of those in public life. We continued to work in a manner that embraced our core values of professionalism, respect, integrity and transparency.

During the year we participated in a staff engagement survey along with the rest of the Government. Our results from that survey showed excellent employee engagement. See Exhibit 6 below.

OAG Core Values

Professional – competently carrying out independent and objective work, always striving to deliver a high quality service

Respect - treating our employees, clients and stakeholders with respect and dignity

Integrity – conducting our work ethically, in a manner that creates confidence and trust in what we do

Transparent – accountability and transparency in the operations of the OAG

Exhibit 6: OAG Employment Engagement Survey 2018

★ Statistically significant difference from comparison group

Employee engagement is shaped by experience at work, as measured by nine themes in the survey shown below



In 2018, the OAG continued consolidating the developments and significant changes that had occurred in the previous years. We continued to deliver the goals outlined in our strategic plan, including:

- reporting our performance through our annual report and accounts
- ensuring our internal controls enabled us to comply with relevant legislative requirements
- reviewing, maintaining and developing our internal policies
- proactively disclosing key information about the OAG
- maintaining and developing our website, Facebook page, and LinkedIn account.

INDEPENDENCE OF THE OAG

The independence of the OAG is fundamentally important to the effective discharge of our constitutional responsibilities. The importance of independence for public audit offices was recognized by the United Nations General Assembly in December 2011 and Commonwealth Heads of Government in November 2013.

In the past there have been significant challenges to our independence, in particular with constraints being placed on financial and human resources. However we have continued to move forward the agenda of strengthening the independence of the OAG and working with Government.

In prior years we have carried out an analysis of the Office's independence against the independence principles for supreme audit institutions, which are supported by the United

Nations General Assembly through a resolution. The key challenge identified was ensuring that the OAG is an independent entity in both substance and form. On the basis of this analysis a number of key changes to the statutory provisions relating to the establishment of the OAG were identified that should be developed, revised or strengthened.

These include:

- OAG to be established as an entity separate from Government;
- independence for all financial and administrative policy matters;
- fixed tenure of office for future Auditor Generals; and
- establishing an Office of the Auditor General law.

CONTINUOUS DEVELOPMENT OF OUR PROFESSIONAL PRACTICE

We are required to carry out our work in compliance with International Standards on Auditing (ISAs) and we are now in the process of adopting International Standards of Supreme Audit Institutions (ISSAIs) which expand on the ISAs for application in the audit of government entities. We continue to integrate the ISSAIs into our audit methodology for both financial and performance auditing.

During the year, we continued to develop our financial and performance audit practices focusing on the further refinements to our audit software by building in the requirements of ISSAIs.

We continued to implement our learning and development plan to ensure we meet our employees' professional development

obligations while providing them with the required skills and tools.

Unfortunately, the full implementation of our quality assurance framework has continued to be delayed due to other priorities given finite management resources. We will continue to work towards addressing this issue, as its full implementation is required to meet our obligations under professional standards.

The focus for the coming year will be the full implementation of the ISSAIs within our audit methodology.

DEVELOPING THE CAPACITY OF OUR EMPLOYEES

With respect to the resources and skills necessary within the OAG, it is essential that we have appropriately skilled and trained people to effectively deliver our mandate. Outside of the core financial audit skills that are well developed within the OAG, additional capacity is required for performance and information technology audit.

During the year, we developed capacity from two perspectives. Firstly, we ensured that our staff maintained and enhanced their skills so that the OAG continued to enhance its audit practice. Secondly, we reviewed the overall resource needs of the OAG to enable the effective delivery of our mandate.

For the first time the Office recruited two professional trainee auditors. Brittany Bodden and Erin McLean start in these positions on 16th April and 14th May respectively and will both be supported in studying for their full accountancy qualification.

Given OAG's historical difficulty in recruiting qualified Caymanians, we hope that by introducing trainee positions, those incumbents will become qualified and then progress through the ranks in the Office.

In June 2018 we provided a secondment opportunity for Sandra Malcolm, an Audit Project Leader, to work in government's Internal Audit Service as Deputy Director (Audit & Assurance) in order for her to gain greater management and leadership.

With respect to developing the capacity of our employees, a number of office-wide activities were undertaken during the year which should support the delivery of our mandate. These included:

- In January 2018, the Office held an Office retreat to: more in-depth training on conducting performance audit as staff internally will be carrying out these performances audits; examination of financial audit practices and preparation for busy season; overview of Pension schemes within Government; and team building exercises.



**January 2018 Staff Retreat
Deputy Auditor General providing
opening remarks**

- In November 2018 the majority of our staff attended the CIIPA Summit, which provided sessions on: risk management; corporate governance; IPSAS updates; cybersecurity and data privacy. The Auditor General played a role in the development of this Summit by sitting on the CIIPA steering committee.
- In December 2018 the Office held another Office wide retreat to develop our employees soft skills in areas such as: leadership, negotiations and decision making, stress management, effective communication, and having empathy. In addition, we provided an update on the OAG strategic plan development for 2019-2022 and examined our financial and performance audit practices. We ended the retreat with a team building exercise of building sand sculptures.



Throughout 2018 staff also upgraded their competencies and skills by taking the following:

- Kwame Afrane, Zenobia Badley, Garnet Harrison and Gabriel Ncube completed their diplomas in International Public Sector Accounting Standards

- Ruel Huet undertook the ACFE on-line Fighting Fraud in Government work programme
- Edgar Bennett and Sasha Rochester became Certified Fraud Examiners
- All staff attended briefings on the new *Public Authorities Law* in February and new *Procurement Law* in March 2018.
- Sandra Malcolm graduated from Leadership Cayman in June 2018.
- Clifton Strengths Finder assessment and coaching sessions with Ray Swarts a SHRM-certified professional. This assessment and coaching session gave insights into the employees top 5 talent themes and how they can leverage their strengths in the workplace.

The OAG is an approved employer of the Association of Chartered Certified Accounts (ACCA), recognizing the opportunities that the OAG provides to team members for professional development who are ACCA qualified.

COMMUNITY INVOLVEMENT

We encourage the staff of the OAG to get involved in community activities.

Members of the OAG participated in the Cayman Islands Institute of Professional Accountants (CIIPA) training committee and public sector committee.

Members of the OAG guest lectured at various professional conferences and in the accounting and auditing programme at UCCI and ICCI.

In April 2018, several staff members participated in the DG 5K Challenge, which

helped to support five good causes with a focus on food and well-being. The beneficiaries on Grand Cayman were: Cayman Islands Meals on Wheels, Feed Our Future, and the Kiwanis Club of Grand Cayman's Buy a Kid Breakfast programme. The beneficiary in the Cayman Brac event was the Kirkconnell Community Care Centre for meals, and for Little Cayman, the money raised went towards a "grow box" at that island's school.

Hayley Samuels, who was mentored by the Auditor General through the Chamber of Commerce's mentorship programme in prior years joined us again as an intern in August 2018.

The Auditor General and Director of Performance Audit volunteered as cashiers in October 2018 for the Breast Cancer Foundation live and silent auctions.

OUR PEOPLE

The Senior Management Team



Garnet Harrison, CPA, CA, Deputy Auditor General

Responsible for managing the OAG's corporate affairs and contracted out audits



Patrick Smith, CPA, CFE, Director of Financial Audit

Responsible for managing our in-house financial audit practice



Angela Cullen, CPFA, Director of Performance Audit

Responsible for managing our performance audit practice and communications

The Auditor General is responsible and accountable for the overall management of the OAG, and is supported by a senior management team who oversee the day to day operations of the OAG, with each member taking responsibility for a specific area.

The senior management team was supported during the year by a team of 2 audit managers, 10 audit staff, 2 audit trainees and 2 administrative staff. Our auditors are all fully qualified members of professional accountancy bodies, with the exception of one who is part qualified and the two audit trainees.

Staff performance is managed through our performance management process. This process sets objectives, assesses performance and helps identify areas for development or training needs for professional development. All staff are provided with suitable training opportunities to ensure continual professional development, including CIIPA annual Summit, which includes an IPSAS update session.

The ethics and independence of OAG staff is critical to the Office's success. All members of staff are required annually to confirm compliance with the Code of Conduct and report any potential conflicts of interest. The conflict of interests register is available for public inspection and senior management declarations are posted on the OAG website (<http://www.auditorgeneral.gov.ky/registerofinterests>).

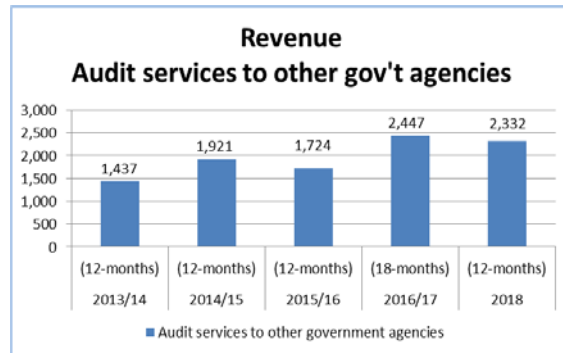
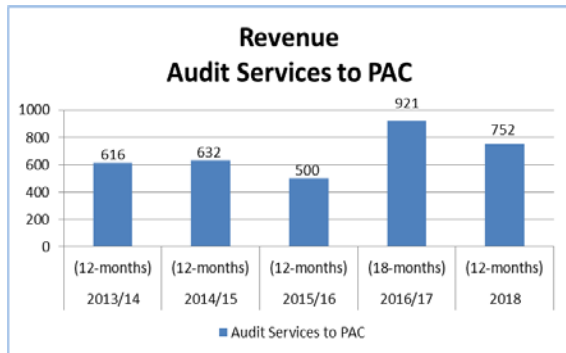
OUR RESOURCES

This section provides a summary and a trend analysis of our use of financial, human and capital resources. The full audited accounts of the OAG are in the next section of the report and details of the outputs delivered are in Appendix 3.

FINANCIAL STATEMENT TREND ANALYSIS AND DISCUSSION

REVENUE ANALYSIS

Expressed in Cayman Islands Dollars and Thousands



Audit services to PAC: has fluctuated over the past 5 years and in 2015-16 we were on the low end of the range due to staff vacancies within the Office and report clearance complexities. Revenue from audit services to PAC is directly correlated to the number of reports and the complexity of those reports we have issued to the Legislative Assembly in each fiscal year.

In 2018, revenue from audit services was up from previous 12 month periods due to the Auditor General's full salary and pension is now charged to PAC as a statutory expense.

We issued 5 reports in 2018 and had 7 in progress; whereas, for the 18-month period of 2016-17 we issued 8 reports and had 4 in audits progress. See Appendix 2 & 3 for further details.

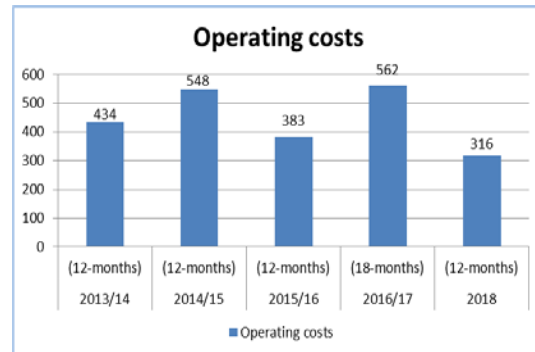
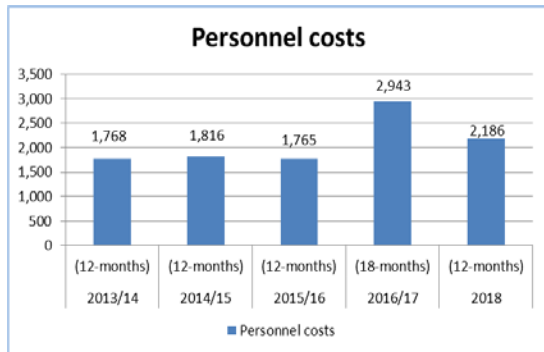
Audit services to other government agencies: During 2018, we generated a significant amount of revenue from our financial statement audit practice in the 12 month period when compared to the other 12 month periods. The reason for the increase in this stream of revenues for 2018 compared to other 12 month periods was a result of doing more interim audit work and fully charging the audit engagement fees. In the past the full engagement fee was not charged if the actual chargeable audit work was under the proposed engagement fee.

The 2018 year end is not directly comparable to 2016-17 as 2016-17 was for an 18-month period.

Over the past 5 years we have issued the following number of financial statements audit opinions: 2018: 44; 2016-17: 55; 2015-16: 34; 2014-15: 54; 2013-14: 48.

EXPENSE ANALYSIS

Expressed in Cayman Islands Dollars and Thousands



Personnel costs: have remained relatively flat over the 3-year period (i.e. from 2013-14 to 2015-16). However, we saw a spike in personnel costs of \$1.2 million for the 2016-17 period due to it being an 18-month period and therefore not being directly comparable to the prior years and the current year. In December 2016 adjustments were made to employees' salaries for those whose pay was stagnated for several years due to the austerity measures adopted by the Cayman Islands Government. Also, for the first time in several years pay increments were awarded for staff who had obtained new qualifications.

These increased personnel costs have carried over to the 2018 year and therefore there is a notable increase over the other 12 month periods. In addition, there were 20 FTEs in 2018 compared to 17 in 2015-16.

Operating costs: Operating costs have fluctuated over the 5-year period mainly due to the use of consultants for performance audits. Professional fees decreased from \$300k in 2014-15 to \$167k in 2015-16 to \$231k for the 18-month period 2016-17 to only \$96k for 2018. This overall decrease resulted from the restructuring plan to shift our focus away from having a significant reliance on using consultants to carry out our performance audit and IT work and developing this expertise in-house.

Revenue and expenses discussed above do not include the work undertaken on behalf of the Office by the private sector audit firms. If these audits were accounted for through the Office's financial statements, revenue and expenditure would both increase by approximately \$890k.

The Office is trying to address this issue by having these expenses attributed to our Office’s operations instead of being charged directly to the entities. This would provide full accountability for the cost of public sector

audit. However, this was not done in the recent budget process.

Most other operating expenses have remained relatively consistent over this time period.

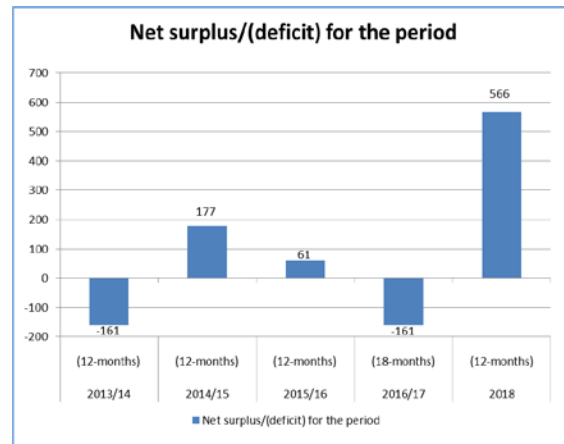
SURPLUS / (DEFICIT) ANALYSIS

The current year saw a spike in surplus achieved. The Office had budgeted for a surplus of \$190k, but achieved a much greater surplus. This increase was a result of the timing, when the timing of financial statement audit work was completed for many jobs it was anticipated more work would have been completed in the prior period. The Office has been able to generate reasonable surpluses over the past 5 years generating a cumulative surplus of \$482k over the past 5 years. There have been 2 periods with losses. In 2016-17 we were not able to generate sufficient revenues from audit services provided to other government entities due to there being only one audit cycle to bill for in the 18-month period. This resulted in a deficit of \$161k. In 2013-14 the Office also incurred a deficit of \$161k, due to a significant decrease in revenue that fiscal year. This was due to delays in completing the entire public sector audits and a few other entities and therefore during that year the Office committed more time towards updating its audit practices and methodology

which was non-billable and resulted in less revenue earned. Our goal is to break even on a year to year basis.

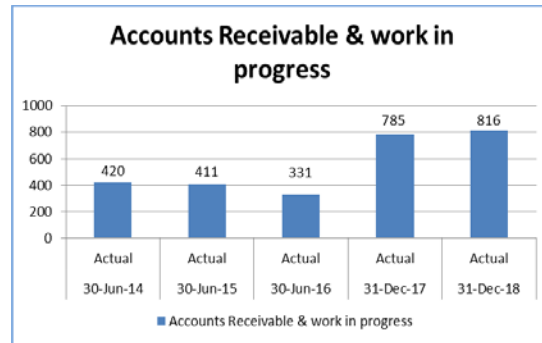
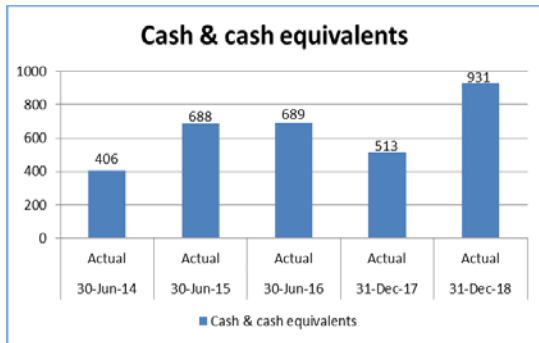
More detailed financial information is contained in our financial statements (see pages 40-68).

Expressed in Cayman Islands Dollars and Thousands



STATEMENT OF FINANCIAL POSITION TREND ANALYSIS ON SELECT ITEMS

Expressed in Cayman Islands Dollars and Thousands

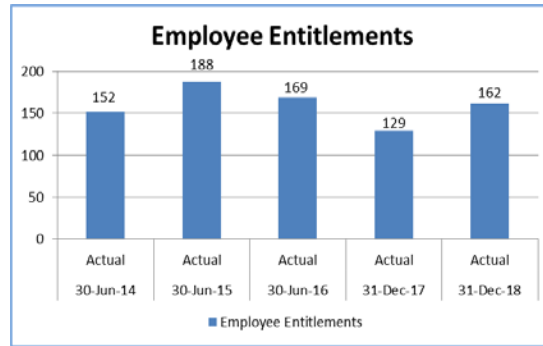
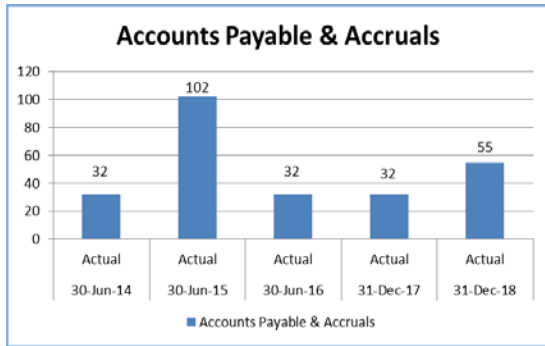


Cash and cash equivalents analysis: For the years 2012-13 to 2018 we have maintained a healthy cash position. We have attempted to maintain a cash position of 2 to 3 times our monthly expenses. The increase in cash and cash equivalents of \$418k from the prior year is a result of the surplus achieved in the current year. For further analysis in the changes of cash and cash equivalents for the year ending 31 December 2018, see the Cash Flow Statement and note 13 to the financial statements for the reconciliation of net surplus to cash flows generated from operating activities.

Accounts receivable and work in progress analysis: As at 31 December 2018 and 31 December 2017 there was a significant increase due to a change in our billing methodology in late 2016-17 for many clients to pay audit fees in increments (50% upfront; 40% progress billing and final 10% upon issuance) for the 2018 and 2016-17 financial statement audits.

We typically manage our outstanding receivables to ensure there is only approximately 2 months outstanding. Even though, the amount owed to the Office from PAC, government ministries, portfolios, statutory authorities and government companies varies from year to year, all accounts are expected to be collected and we have never had to be concerned about an allowance for uncollectable accounts.

Expressed in Cayman Islands Dollars and Thousands



Accounts payable and accruals: Accounts payables and accruals are expected to vary from \$20k to \$40k in any given year. However, as at 30 June 2015, accounts payable were significantly higher than the normal range due to consultants doing more work in June of that fiscal year.

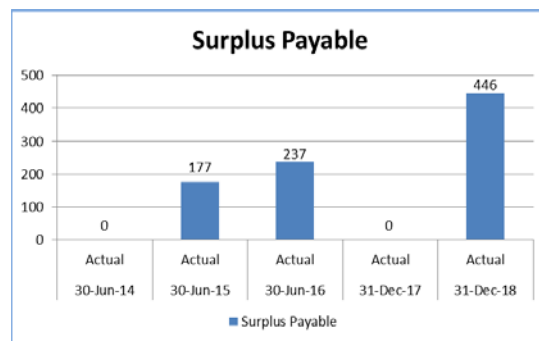
Trade payables at 31 December 2018 were \$23k more than the previous period end, due to the health care premium insurance (\$17k), software fees (\$2k) and training fees (\$4k) not being paid at year end in comparison to the prior year end.

Employee entitlements analysis: Annual leave increased by \$44k from prior period’s actual amount due to employees not being able to reduce the buildup of their annual leave. However, this was offset by time-off-in-lieu with it being lowered by \$11k from prior period end actual due to employees using it up and some being paid out. During 2015-16 and 2016-17, the Office made a concerted effort to reduce its employee entitlement liability, which resulted in it being lowered from its peak of \$188k at 30 June 2015.

Surplus payable analysis:

Surplus payable is directly related to the surplus amounts achieved in each fiscal year less any repayments made to Government or any offsets for deficits incurred.

In accordance with section 67 and 39 3(f) of the PMFL, the PAC agreed that the Office could offset the current year surplus against the prior year deficit, which resulted in a surplus payable of \$466k being due at 31 December 2018. During the 18-month period ending 31 December 2017 we did repay the \$177k surplus from the 30 June 2015.



FINANCIAL PERFORMANCE RATIOS

Ratio	2018	2018	Variance
	Actual	Original / Final Budget	
	%	%	%
Current Assets: Current Liabilities (Working Capital)	155	315	(160)
Total Assets: Total Liabilities	161	344	(183)

These ratios indicate that we were able to meet our current obligations as at 31 December 2018. Current assets: current liabilities and total assets: total liabilities ratio at 31 December 2018 were not as high as budget due to the change in billings process for staged billings, which significantly increased the liabilities of the Office for deferred revenue thereby impacting these ratios.

SENIOR MANAGEMENT REMUNERATION

The remuneration and benefits of the OAG senior management during 2018 and 2016-17 are disclosed below in bands of CI\$5,000.

Post	Remuneration	Remuneration	Benefits	Benefits
	2018	2016-17	2018	2016-17
	(12-months)	(18-months)	(12-months)	(18-months)
	\$000	\$000	\$000	\$000
Auditor General	160-165	225-230	40-45	55-60
Deputy Auditor General	130-135	200-205	30-35	45-50
Director Performance Audit	95-100	90-95	20-25	15-20
Director Performance Audit (resigned February 2017)	-	95-100	-	10-15
Director Financial Audit	100-105	160-165	20-25	25-30

Remuneration includes salary, allowances, and any additional remuneration paid during the financial year (2016-17: salary, allowances, any additional remuneration). Allowances paid during the year were acting and motor car upkeep allowances. Benefits include pension, and health care insurance. Effective July 2018, Office personnel received a 5% cost of living allowance, which increased the salaries and pensions of staff.

The 2018 remuneration amounts are not directly comparable to the prior period 2016-17 as it was for an 18-month period. The former Director of Performance Audit resigned effectively 8 February 2017 and any remaining leave balances were paid out at that time. The former Director of Performance Audit also had reached retirement age and no longer received any pension payments as benefits, but the remuneration of his salary was increased to compensate for this decrease in benefit. In December 2016 adjustments were made to employees' salaries for those whose pay was

stagnated for several years due to the austerity measures adopted by the Cayman Islands Government, which increased the salaries of the following senior management: Deputy Auditor General, former Director Performance Audit and the Director Financial Audit. In addition, for the first time pay increments were also awarded for staff who had obtained new qualifications, which increased the salary for the Director Financial Audit in 2016-17 and the Deputy Auditor General in 2018.

PROFESSIONAL SERVICES AND CONSULTANTS

Vendor	Service	Fees & related costs(\$)
Consultant Performance Auditor Baker Tilly (Cayman) Ltd.	Customs Performance Audit	53,282
Consultant Performance Auditor Ropers Enterprises	OAG Financial Statement Auditor	15,106
BDO	Education Performance Audit	12,819
Consultant Performance Auditor	Janitorial services	10,192
Netclues	Workforce planning and management Performance Audit	9,747
Editor	Improving Financial Accountability and Transparency Performance Audit	8,187
Reliable	Website hosting and maintenance	2,750
Campbells	Report Editing	2,257
Security Centre	Janitorial Services	1,710
	Legal Advice	1,307
	Security Services	1,220

During the year we contracted with BDO and several individual consultants to help us conduct our performance audits. The cost of the performance auditors includes payments made directly to the performance auditors and their associated costs (i.e. work permit fees, airfare, hotel, car rental, etc.). Campbells provided us with legal advice for our financial audit and investigative work.

We continue to engage consultants to carry out performance audit work as that was the resourcing model inherited. However, we are actively reducing our reliance on consultants to conduct performance audits on our behalf and have begun to build capacity in-house for performance auditing but this will take time to achieve.

Baker Tilly (Cayman) Ltd. continues to undertake the financial statement audit of the OAG.

TRAVEL & SUBSISTENCE

The Office undertakes travel to: conduct audit work, enhance competencies and skills of staff, and to support the development of public sector auditing across the Caribbean region and internationally. The Office is recognised as one of the leaders in public sector auditing, within the Caribbean region. As a result there is an increasing demand for the Office to support capacity building initiatives across the region and contribute more widely to the development of public sector auditing in international public auditing forums. Over half of the staff members have participated in this travel. The travel we have taken over the past two fiscal periods, much of which is supported by non-Government funding, is outlined in Table 3 below.

Table 3 – Year to year comparison of travel	
Travel & Subsistence 2018 (12-months) – \$33K	Travel & Subsistence 2016-17 (18-months) – \$43K
	Brazil , Brasilia – INTOSAI Professional Standards Committee members meeting
Canada - Canadian Council of Legislative Auditor's (CCOLA) conferences and meetings in: Charlottetown, Prince Edward Island (annual conference with public accounts forum) Toronto (financial statement symposium)	Canada - Canadian Council of Legislative Auditor's (CCOLA) conferences and meetings in: Yellowknife, Fredericton (annual conference with public accounts forum) Ottawa (financial statement symposium); Toronto (performance audit symposium); and Montreal (IT committee meeting)
Cayman Brac – financial statement (inventory counts) and performance audit work	Cayman Brac – meeting with District Administration and the District Commissioner; financial statement and performance audit work
	Georgia , Tbilisi – INTOSAI – IDI quality assurance workshop (sponsored by IDI)
	Guyana – CAROSAI regional workshop on parliamentary oversight (World Bank sponsored) Institute of Chartered Accountants of the Caribbean (ICAC) annual conference (ICAC sponsored)
	Hungary , Budapest – INTOSAI – IDI performance audit workshop on preventing corruption (partly sponsored by INTOSAI - IDI)
	India , New Dehli – Commonwealth Auditor General's Conference (tri-annual)
Jamaica , Kingston – 30 th Anniversary of CAROSAI	Jamaica , Kingston – INTOSAI LMS training for e-learning programme

Table 3 – Year to year comparison of travel	
Travel & Subsistence 2018 (12-months) – \$33K	Travel & Subsistence 2016-17 (18-months) – \$43K
	Panama , Panama City – Supreme Audit Institutions Performance Measurement Framework workshop
	South Africa , Cape Town – INTOSAI Capacity Building Committee annual meeting
	St. Vincent – CAROSAI twinning arrangement to strengthen the capacity of the Audit Office of St. Vincent (World Bank sponsored)
	Trinidad – ICAC conference on Public financial reporting reforms (ICAC sponsored)
United Kingdom , London – UK overseas territories PA workshop (FCO partially sponsored) and financial audit work on OT Office and Department of Tourism Office.	United Kingdom , London – UK overseas territories project of multi-lateral audit training on the UK overseas territories financial audit manual (partially sponsored)
United States , Miami – UK Overseas territories PA workshop (FCO partially sponsored)	United States , Miami – Overseas territories governance conference (FCO sponsored) New Orleans – Society for Human Resource Management Annual Conference & Exposition Washington - INTOSAI Capacity Building Committee annual meeting & Task Force on International Auditor Professionalisation (TFIAP)
Zambia, Lusaka - INTOSAI – IDI performance audit workshop on preventing corruption (partly sponsored by INTOSAI - IDI)	

PHYSICAL CAPITAL MEASURES

Measure	2018 Actual \$000	2018	
		Original/ Budget \$000	Variance \$000
Value of total assets	1,819	970	849
Asset replacements: total assets	1%	3%	(2%)
Book value of assets: initial cost of those assets	42%	50%	(8%)
Depreciation: cash flow on asset purchases	94%	63%	31%
Changes to asset management policies	None	None	-

The Office's total assets were over budget by \$849k as a result of accounts receivable being higher than budget due to a change in our billings process with staged billings and quarterly billings being implemented during the year and the increase in cash and cash equivalents due to the surplus achieved for the year. Cash and cash equivalents increased from budget by \$663k and accounts receivable increased from budget by \$201k at the year-end, which was offset by a decrease in fixed assets by \$13k.

The book value of assets to initial cost of those assets was 8% less than anticipated due to a computers not being purchased during the year. This also impacted depreciation to cash flow on asset purchases, which was over budget by 31% since cash flows on asset purchased was significantly less than budgeted.

HUMAN CAPITAL MEASURES

Measure	2018 Actual	2018	
		Original / Final Budget	Variance
Total full time equivalent staff employed at 31 December	21	21	-
Staff turnover (%)			
Senior Managers	0%	25%	(25%)
Professional and technical staff	0%	25%	(25%)
Administrative and non-professional staff	20%	20%	-
Average length of service (number of years in current position)			
Senior Managers	10	6	4
Professional and technical staff	6	5	1
Administrative and non-professional staff	5	5	0
Changes to personnel management system:		None	

There were no changes to the personnel management system in 2018 and 2016-17. However, back in 2015-16, the Office began to restructure and realign its budget by decreasing its professional fees budget and creating two audit manager positions and two professional audit trainee positions. As at the 31 December 2018, the two professional audit trainee positions were filled (31 December 2017: positions were not filled). At the senior management level we had no employees resign during the year, which was not in line with our budget as we expected one employee to resign during the year (18-month period ending 31 December 2017 one employee retired). At the professional and technical staff position (Audit Managers and Audit Project Leaders) we had no employees resign during the year, which was not in line with our budget as we expected three employees to resign during the year (18-month period ending 31 December 2017 three employees resigned), which was also in line with the budget. There was one retirement under the administrative and non-professional staff category, which was in line with our expectations. As at 31 December 2018 we had one employee on secondment to Internal Audit Services of the Government. This individual is included in our total FTE staff employed as at 31 December 2018.

SICK LEAVE ANALYSIS

	2013-14 (12 months)	2014-15 (12 months)	2015-16 (12 months)	2016-17 (18 months)	2018 (12 months)
# of days	129	188	117	215	136
# of FTE*	16.83	18.43	17.11	18.65	20.29
Average sick days/FTE	7.66	10.20	6.84	11.53	6.70
Sickness absence rate **	3.46%	4.54%	3.06%	3.44%	2.98%

* Full Time Equivalents – includes staff who have resigned during the year and new starts

** Sickness absence rate = total sick days taken / total number of working days available for period (i.e. less entitled annual leave days and public holidays)

Under the *Personnel Regulations* employees are allowed up to 10 working days paid sick leave per year and can be granted extended sick leave in the event of serious illness or injury to the employee up to a maximum of 125 working days sick leave on full pay and a further 135 working days on half pay. The Office’s expected range for sick leave during any given year per employee is 7-8 days based on past experience.

For the year ending 31 December 2018, the sickness absence rate is consistent with the prior years. During this period two employees were granted extended sick leave ranging from 11.5 to 13.5 days. All employees recorded some sick leave, with 3 employees recording only 1 sick day for the year.

For the 18-month period ending 31 December 2017 two employees were granted extended sick leave ranging from 9 to 38 days. One employee did not record any sick leave during this 18-month period and two others who were hired part way through the period also did not record any sick leave, which helped to reduce the average sick days per FTE. The sickness absence rate is consistent with the prior years.

PROFILE OF OAG STAFF

The OAG has a diverse staffing profile with ten nationalities represented as at 31 December 2018.

Nationality	Senior Management	Auditors	Administrative
Caymanian	1	4	2
Barbadian	-	2	-
British	2	-	-
Canadian	1	-	-
Filipino	-	2	-
Ghanaian	-	1	-
Guyanese	-	1	-
Jamaican	-	3	-
Ugandan	-	1	-
Zimbabwean	-	1	-

The percentage of overall Caymanian staff increased to 33% as at 31 December 2018 from 16% as at 31 December 2017 as a result of hiring 2 new Caymanian staff members and another 2 staff members received Caymanian status during the year.

We have nine male and twelve female members of staff.

Gender	Senior Management	Auditors	Administrative
Female	2	8	2
Male	2	7	-

RISK MANAGEMENT

Risk management is a key element of the Office's management framework that meets the requirements set out in the PMFL as well as auditing standards. The OAG manages risks for the achievement of both financial and operational objectives. The senior management team ensures that the Office's risk register is kept under review and that there are appropriate management practices in place to mitigate the risks that had been identified.

The Office has identified nine risks and has categorized these risks across four broad categories: 1) strategic, 2) operational, 3) financial, and 4) employees. After considering the controls in place to help mitigate these risks, we also considered the likelihood and impact of them occurring. After this assessment two risks were considered moderate, and seven low. The two moderate risks were:

- Breaches to our information technology systems
- Theft, loss and unauthorized access to data.

As a result of the identification of these risks the Office will actively monitor these areas and action is being taken to reduce exposure.

For 2018, operational risks were effectively managed and mitigated with no instances of significant events or deviations from operational plans.

Evidence of how the risks are managed can be found in the Office's most recent strategic plan ([OAG 2015 to 2019 Strategic Plan: Delivering Value](#)).

FINANCIAL ACCOUNTS



Financial Statements

31 December 2018

Office of the Auditor General Cayman Islands

Statement of Responsibility for Financial Statements

These financial statements have been prepared by the Office of the Auditor General in accordance with the provisions of the *Public Management and Finance Law (2018 Revision)*.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law (2018 Revision)*.

As Auditor General and Deputy Auditor General, we are jointly responsible for the preparation of the Office of the Auditor General's financial statements and for the judgements made in them.

As Auditor General and Deputy Auditor General, we are responsible for establishing; and have established and maintained a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Office of the Auditor General.

The financial statements fairly present the financial position, financial performance and cash flows of the Office of the Auditor General for the year ended 31 December 2018.

To the best of our knowledge we represent that these financial statements:

- a) completely and reliably reflect the financial transactions of the Office of the Auditor General for the year ended 31 December 2018;
- b) fairly reflect the financial position as at 31 December 2018 and the performance for the year ended 31 December 2018;
- c) comply with International Public Sector Accounting Standards as set out by International Public Sector Accounting Standards Board under the responsibility of the International Federation of Accountants.

Baker Tilly Cayman conducts an independent audit and expresses an opinion on these financial statements. Baker Tilly Cayman has been provided access to all the information necessary to conduct an audit in accordance with International Standards on Auditing.



Sue Winspear, CPFA
Auditor General



Garnet Harrison, CPA, CA
Deputy Auditor General &
Freedom of Information Manager

DATE: 29 March 2019

DATE: 29 March 2019

INDEPENDENT AUDITOR'S REPORT TO THE PRESIDING OFFICER OF THE LEGISLATIVE ASSEMBLY OF THE CAYMAN ISLANDS

We have audited the accompanying financial statements of the Office of the Auditor General (the "Office") which comprise the statement of financial position as at 31 December 2018, and the related statements of financial performance, changes in net assets/equity and cash flows for the year then ended, and the notes to the financial statements as presented on pages 44 to 68 of the annual report.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Office as at 31 December 2018 and its financial performance, changes in net assets/equity and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Office in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Office's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Office or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Office's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Office's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Office to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

This report, including the opinion, has been prepared for and only for the Presiding Officer of the Legislative Assembly of the Cayman Islands, as a body, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Baker Tilly (Cayman) Ltd.

Baker Tilly (Cayman) Ltd.
29 March 2019
Grand Cayman, Cayman Islands

Office of the Auditor General Cayman Islands
Statement of Financial Position
As at 31 December
(in Cayman Islands Dollars)

2017 Actual \$000		Note	2018 Actual \$000	2018 Original/Final Budget \$000	2018 Variance from Original Budget \$000
	Current assets				
513	Cash and cash equivalents	1	931	268	663
785	Accounts receivable & work in progress	2	816	615	201
11	Prepayments		2	4	(2)
1,309	Total current assets		1,749	887	862
	Non-current assets				
69	Property, plant and equipment	3	70	83	(13)
69	Total non-current assets		70	83	(13)
1,378	Total assets		1,819	970	849
	Current liabilities				
32	Accounts payable and accruals	4	55	45	10
129	Employee entitlements	5	162	135	27
-	Surplus payable	6	447	102	345
648	Unearned revenue	7	467	-	467
809	Total current liabilities		1,131	282	849
809	Total liabilities		1,131	282	849
569	Net assets		688	688	-
	Net assets/equity				
688	Contributed capital*	8	688	688	-
(119)	Accumulated (deficits)*		-	-	-
569	Total net assets/equity		688	688	-

* See Statement of Changes in Net Assets/Equity on page 46

The accounting policies and notes on pages 48 to 68 form part of these financial statements

Office of the Auditor General Cayman Islands
Statement of Financial Performance
Year Ended 31 December
(in Cayman Islands Dollars)

2016/17 Actual (18-Months)			2018 Actual (12-Months)	2018 Original Budget	2018 Final Budget	2018 Variance from Original Budget
\$000	Note	\$000	\$000	\$000	\$000	\$000
Revenue						
921			752	735	752	17
2,447	9	2,332	2,144	2,144	2,144	188
3,368	Total revenue	3,084	2,879	2,896	2,896	205
Expenses						
2,943	10	2,186	2,115	2,215	2,215	71
562	11	316	554	454	454	(238)
24	3	16	20	20	20	(4)
3,529	Total expenses	2,518	2,689	2,689	2,689	(171)
(161)	Net surplus/(deficit) for the year / period	566	190	207	207	376

The accounting policies and notes on pages 48 to 68 form part of these financial statements.

Office of the Auditor General Cayman Islands

Statement of Changes in Net Assets/Equity

Year Ended 31 December

(in Cayman Islands Dollars)

2016/17 Actual (18-Months)		2018 Contributed Capital (12-Months) (Note 7) \$000	2018 Accumulated Surpluses / (Deficits) (12-Months) \$000	2018 Total Net Assets / Equity (12-Months) \$000	2018 Total Net Assets/Equity Original/Final Budget \$000	2018 Total Net Assets/Equity Variance From Original Budget \$000
\$000	Note					
669		688	(119)	569	600	(31)
(161)		-	566	566	190	376
-	-	-	-	-	-	-
-	6, 8	-	(566)	(566)	(190)	(376)
(61)	6	-	119	119	88	31
569		688	-	688	688	-

The accounting policies and notes on pages 48 to 68 form part of these financial statements.

Office of the Auditor General Cayman Islands

Cash Flow Statement

As at 31 December

(in Cayman Islands Dollars)

2016/17 Actual (18-Months)		Note	2018 Actual (12-Months) \$000	2018 Original/Final Budget \$000	2018 Variance from Original Budget \$000
\$000					
	CASH FLOWS FROM OPERATING ACTIVITIES				
	Receipts:				
910	Audit services provided to Public Accounts Committee		734	695	39
2,651	Audit service provided to other government agencies		2,140	2,139	1
	Payments:				
(2,983)	Personnel costs		(2,136)	(2,105)	(31)
(569)	Operating expenses		(303)	(554)	251
9	Net cash flows generated from operating activities	14	435	175	260
	CASH FLOWS FROM INVESTING ACTIVITIES				
(9)	Purchase of non-current assets		(17)	(31)	14
(9)	Net cash flows (used in) investing activities		(17)	(31)	14
	CASH FLOWS FROM FINANCING ACTIVITIES				
(176)	Repayment of surplus	6	-	-	-
(176)	Net cash flows (used in) financing activities		-	-	-
(176)	Net increase (decrease) in cash and cash equivalents		418	144	274
689	Cash and cash equivalents at beginning of year / period		513	124	389
513	Cash and cash equivalents at end of year / period	1	931	268	663

The accounting policies and notes on pages 48 to 68 form part of these financial statements.

Office of the Auditor General Cayman Islands

Notes to the Financial Statements

For the year ending 31 December 2018

(in Cayman Islands Dollars)

BACKGROUND INFORMATION

The Office of the Auditor General (the “Office” or “OAG”) is established under the Cayman Islands Constitution Order 2009 Section 114 as an independent public office. Its mandate and responsibilities are prescribed in sections 58 to 69 of the *Public Management and Finance Law (2018 Revision)* (“PMFL”). Revenue is derived from audit services provided to the Cayman Islands Government (“the Government”). The Office is dependent on this source of income to continue its operations. Some of the audit services are undertaken by private sector auditors appointed by the Auditor General.

The Office is located on the third floor, Anderson Square, Shedden Road, George Town, Grand Cayman. As at 31 December 2018, the Office employed 21 staff (31 December 2017: 19).

GENERAL ACCOUNTING POLICIES

BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Public Sector Accounting Standards (“IPSAS”) issued by the International Federation of Accountants and its International Public Sector Accounting Standards Board using the accrual basis of accounting.

New and revised accounting standards issued that are not yet effective for the financial year beginning 1 January 2018 have not been early adopted by OAG.

Certain new accounting standards have been published that are not mandatory for the 31 December 2018 reporting period and have not been early adopted by the OAG. The Office assessment of the impact of these new standards are set out below.

IPSAS 40, Public Sector Combinations was issued in January 2017 and shall be applied for annual financial statements covering periods beginning on or after 1 January 2019. It is not anticipated in the future that the OAG will be combined with any other public sector entity and therefore it is anticipated this standard will not be applicable to the OAG in future periods.

Office of the Auditor General Cayman Islands
Notes to the Financial Statements
For the year ending 31 December 2018
(in Cayman Islands Dollars)

GENERAL ACCOUNTING POLICIES (CONTINUED)

BASIS OF PREPARATION (CONTINUED)

IPSAS 41, Financial Instruments was issued in August 2018 and shall be applied for financial statements covering periods beginning on or after 1 January 2022. *IPSAS 41* establishes new requirements for classifying, recognizing and measuring financial instruments to replace those in *IPSAS 29, Financial Instruments: Recognition and Measurement*. It is anticipated that *IPSAS 41* will not have a significant impact on the Office's financial statements. This will be assessed more fully closer to the effective date of adoption.

IPSAS 42, Social Benefits was issued in December 2018 and shall be applied for financial statements covering periods beginning on or after 1 January 2022. *IPSAS 42* defines social benefits and determines when expenses and liabilities for social benefits are recognized and how they are measured. It is anticipated that *IPSAS 42* will not have an impact on the Office's financial statements, but this will be assessed more fully closer to the effective date of adoption.

These financial statements have been prepared on a going concern basis and the accounting policies set out below have been applied consistently to all periods presented. The financial statements are presented in Cayman Islands dollars using the historical cost basis of accounting.

REPORTING PERIOD

The reporting period is for the 12 months ended 31 December 2018. Comparatives are for the 18-month period ended 31 December 2017 and so are not directly comparable to the year ended 31 December 2018 numbers, which are for 12 months. In 2016-17, the Office's financial year end was changed from 30 June to 31 December as a result of an amendment to the *Public Management and Finance Law (2013 Revision)* that was passed by the Legislative Assembly on 27 March 2017.

Office of the Auditor General Cayman Islands
Notes to the Financial Statements
For the year ending 31 December 2018
(in Cayman Islands Dollars)

GENERAL ACCOUNTING POLICIES (CONTINUED)

BUDGET AMOUNTS (CONTINUED)

The 2018 original budget amounts were prepared using the accrual basis of accounting and the accounting policies have been consistently applied with the actual financial statements presentation. The 2018 and 2019 original budgets were presented in the 2018 and 2019 Annual Budget Statements of the Government of the Cayman Islands and approved by the Legislative Assembly on 15 November 2017.

In 2018 the Office submitted a supplemental budget of \$17k to the Legislative Assembly for approval to increase the fee for audit services provided to Public Accounts Committee (“PAC”). This was approved by the Legislative Assembly on 17 December 2018. In addition, the Office requested a virement of \$100k from operating expenses to personnel costs.

The Final Budget amounts reflect the supplemental budget and virement of funds.

JUDGEMENT AND ESTIMATES

The preparation of financial statements in conformity with IPSAS requires judgments, estimates, and assumptions affecting the application of policies and reported amounts of assets and liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the reporting period that is affected by those revisions. As at 31 December 2018 and 31 December 2017, no reliable fair value estimate of contributed goods and services provided to the Office by government entities could be made and therefore no estimated amounts are recorded in these financial statements.

Office of the Auditor General Cayman Islands
Notes to the Financial Statements
For the year ending 31 December 2018
(in Cayman Islands Dollars)

SPECIFIC ACCOUNTING POLICIES

ASSETS

Cash and cash equivalents

Cash and cash equivalents include cash held in bank accounts in the name of the Office of the Auditor General maintained with the Royal Bank of Canada in the Cayman Islands.

Accounts Receivable

Accounts receivable are recognised initially at fair value and are subsequently measured at amortised cost less a provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Office will not be able to collect all amounts due according to the original terms of the receivables. Significant collection delays are considered indicators that the receivables may be impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of financial performance. When accounts receivable are deemed uncollectible, they are written-off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written-off are recognised in future periods as revenue in the year in which it is collected.

Work in Progress

Work in progress represents time spent performing audit services that have not yet been billed. Work in progress is stated at net realisable value.

Property, Plant and Equipment

Property, plant and equipment are carried at historical cost (which includes acquisition costs) less accumulated depreciation and are depreciated on the straight line basis at the following rates and estimated useful lives:

- Furniture and fittings 6.66% (15 years) to 11.11% (9 years)
- Computer Equipment 33.33% (3 years)
- Office Equipment 10% (10 years) to 33.33% (3 years)
- Leasehold Improvements Over the term of the lease

Office of the Auditor General Cayman Islands
Notes to the Financial Statements
For the year ending 31 December 2018
(in Cayman Islands Dollars)

SPECIFIC ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the period end. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value for use in service.

LIABILITIES

Accounts Payable

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost.

Employee Benefits

a) Annual Leave entitlement

Annual leave due, but not taken, is recognised as a current liability at the current rates of pay.

b) Pension Obligations

Pension contributions for employees of the Office are paid to the Public Service Pensions Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board and is operated as a multi-employer non-contributory fund, whereby the employer pays both employer and employee contributions. Pension contributions are included in personnel costs in the statement of financial performance. In 2018 and 2016-17 all eligible employees of the Office belonged to the defined contribution plan. There were no employees in 2018 and one employee in part of 2016-17 who reached retirement age and therefore was no longer eligible to participate in the defined contribution plan.

Unearned Revenue

The Office derives its revenue from the PAC and other government entities for audit services provided. The Office implemented stage billings for the 31 December 2017 financial audit work for several clients which included 50% billing upon commencement of work, which is recorded as unearned revenue until it is earned. There is also unearned revenue relating to the 31 December 2018 financial audit work.

Office of the Auditor General Cayman Islands
Notes to the Financial Statements
For the year ending 31 December 2018
(in Cayman Islands Dollars)

SPECIFIC ACCOUNTING POLICIES (CONTINUED)

LIABILITIES (CONTINUED)

Surplus Payable

Pursuant to the *Public Management & Finance Law (2018 Revision)* section 39 (3)(f) the Office may “retain such part of its net operating surplus as is determined by the Minister of Finance”. Under section 67 of the PMFL every reference to a minister is to be interpreted as a reference to PAC. When surpluses arise, these are booked as a payable to the Cayman Islands Government unless the PAC directs that the surplus can be retained.

CONTRIBUTED CAPITAL

Contributed capital relates to initial working capital and start up cash provided to the Office, equity injections for fixed asset acquisitions that are funded by the Cayman Islands Government and contributed goods and services provided by Cayman Islands Government entities to the Office.

REVENUE

Audit services revenue

The Office derives its revenue from the PAC and other government entities for audit services provided according to the provisions in the PMFL section 68(1). These services are defined in the PMFL, which includes: financial statement audit work; performance audits and investigations undertaken on the initiative of the Auditor General or at the request of the Legislative Assembly or any of its committees or subcommittees; and advice and assistance provided to the Legislative Assembly or to any of its committees or subcommittees. Audit services revenue is recognised in the accounting period in which it is earned.

EXPENSES

General

Expenses are recognised when incurred on the accrual basis of accounting. In addition, an expense is recognised for the consumption of the estimated fair value of contributed goods and services received, when an estimate can realistically be made.

Office of the Auditor General Cayman Islands
Notes to the Financial Statements
For the year ending 31 December 2018
(in Cayman Islands Dollars)

SPECIFIC ACCOUNTING POLICIES (CONTINUED)

EXPENSES (CONTINUED)

Depreciation

Depreciation of non-financial physical assets is provided on a straight-line basis at rates based on the expected useful lives of those assets.

Operating Leases

Leases are classified as operating leases when a significant portion of the risks and rewards of ownership are retained by the lessor. Payments made under the operating leases are recognised as an expense on a straight line basis over the lease term.

NOTE 1: CASH AND CASH EQUIVALENTS

Cash and cash equivalents include a non-interest bearing operating and payroll account held in the name of the Office of the Auditor General at the Royal Bank of Canada in the Cayman Islands. The balances at 31 December were:

2017 Actual \$000		2018 Actual \$000	2018 Original/Final Budget \$000	2018 Actual vs. Original Budget \$000
513	Bank accounts	931	268	663
513	Total cash and cash equivalents	931	268	663

Explanation of major variances against the original budget and prior year actual:

Cash and cash equivalents are over budget by \$663k, which is a result of the significant surplus achieved and operating expenses being significantly lower than expected and the actual cash and cash equivalents at the beginning of the year being significantly higher than budgeted. Other factors are noted in the Cash Flow Statement and note 14 reconciliation of net surplus to cash flows generated from operating activities.

The increase in cash and cash equivalents of \$418k from the prior year is a result of the surplus achieved and lower operating expenses. Cash from operations increased by \$435k, which was offset by cash outflows for purchases of property, plant and equipment of \$17k. See the Cash Flow Statement.

Office of the Auditor General Cayman Islands
Notes to the Financial Statements
For the year ending 31 December 2018
(in Cayman Islands Dollars)

NOTE 2: ACCOUNTS RECEIVABLE & WORK IN PROGRESS

2017 Actual		2018 Actual	2018 Original/Final Budget	2018 Actual vs. Original Budget
\$000		\$000	\$000	\$000
-	Audit services to PAC (accounts receivable)	47	80	(33)
61	Audit services to PAC (work in progress)	32	110	(78)
469	Audit services to other government entities (accounts receivable)	506	200	306
255	Audit services to other government entities (work in progress)	231	225	6
785	Total gross accounts receivable & work in progress	816	615	201
-	Less: provision for doubtful debts	-	-	-
785	Total net accounts receivable & work in progress	816	615	201

Aging Analysis of Accounts Receivable & Work in Progress

2017 Actual	Accounts receivable & work in progress	2018 Actual	2018 Original/Final Budget	2018 Actual vs. Original Budget
\$000		\$000	\$000	\$000
316	Current	699	325	374
163	Past Due 1-30 days	7	230	(223)
39	Past Due 31-60 days	-	60	(60)
239	Past Due 61-90 days	47	-	47
28	Past Due 91-180 days	63	-	63
-	Past Due 181-360 days	-	-	-
-	361 + Days	-	-	-
785	Total	816	615	201

Office of the Auditor General Cayman Islands
Notes to the Financial Statements
For the year ending 31 December 2018
(in Cayman Islands Dollars)

NOTE 2: ACCOUNTS RECEIVABLE & WORK IN PROGRESS (CONTINUED)

Explanation of major variances against the original budget and prior year actual:

Accounts receivable & work in progress for audit services provided to PAC:

Actual to budget: the Office expected PAC to have outstanding accounts receivable and work in progress balances of \$190k at period end. However, the balance owing by PAC to the Office was \$111k less than budget because we did more work for PAC than originally anticipated and therefore were unable to fully bill PAC for work done in November and December 2018 as the Office had already utilized its full appropriation.

Current actual to prior period actual: accounts receivable and work in progress increased by \$18k over the prior period ending 31 December 2017 due to 2 months of invoices being outstanding at 31 December 2018 versus 1 month in the prior year.

Accounts receivable & work in progress for audit services provided to other government entities:

Actual to budget: the Office's accounts receivable were \$306k higher than budget as a result of staged billings (i.e. 50% billing upon commencement of work) being implemented by the Office in September 2017 after the budget was prepared. Work in progress at year end was in line with the budget as it was only slightly higher by \$6k.

Current actual to prior period actual: accounts receivable and work in progress were \$13k higher than the prior year, which is consistent with the prior period result.

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NOTE 3: PROPERTY, PLANT AND EQUIPMENT

	Furniture & Fittings \$000	Office Equipment \$000	Computer Equipment \$000	Leasehold Improvements \$000	Total \$000	Original/Final Budget \$000	Actual vs. Original Budget \$000
<u>Cost</u>							
At 1 July 2016	69	28	29	14	140	196	(56)
Additions	2	-	7	-	9	25	(16)
Disposals	-	-	-	-	-	(7)	7
At 31 December 2017	71	28	36	14	149	214	(65)
<u>Accumulated Depreciation</u>							
At 1 July 2016	7	22	22	5	56	92	(36)
Accumulated depreciation on disposals	-	-	-	-	-	(7)	7
Depreciation charge for the period	10	2	7	5	24	37	(13)
At 31 December 2017	17	24	29	10	80	122	(42)
Net book value at 31 December 2017	54	4	7	4	69	92	(23)
<u>Cost</u>							
At 1 January 2018	71	28	36	14	149	142	7
Additions	4	13	-	-	17	31	(14)
Disposals	-	-	-	-	-	(6)	6
At 31 December 2018	75	41	36	14	166	167	(1)
<u>Accumulated Depreciation</u>							
At 1 January 2018	17	24	29	10	80	70	10
Accumulated depreciation on disposals	-	-	-	-	-	(6)	6
Depreciation charge for the year	7	2	4	3	16	20	(4)
At 31 December 2018	24	26	33	13	96	84	12
Net book value at 31 December 2018	51	15	3	1	70	83	(13)

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NOTE 3: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Explanation of major variances against the original budget:

In 2018 the Office purchased a new printer and office work station. The additions were under budget by \$14k due to cost of the printer being lower than the amount in the budget. In addition, no new computers were purchased during the year, which was also allowed for in the budget. The Office also budgeted to dispose of \$6k worth of computer equipment, which did not take place.

In 2016-17, the Office was under budget by \$16k for additions as a result of not purchasing a new printer and over budget by \$7k for disposal of property, plant and equipment as none was disposed of in the 18-month period.

NOTE 4: ACCOUNTS PAYABLE & ACCRUALS

2017 Actual \$000		2018 Actual \$000	2018 Original/Final Budget \$000	2018 Actual vs. Original Budget \$000
17	Trade creditors	40	27	13
15	Accruals	15	18	(3)
32	Total	55	45	10

Explanation of major variances against the original budget and prior year actual:

Trade creditors: Trade creditors' payable was over budget by \$13k. This was mainly due to the health care insurance premium not being paid at 31 December 2018. Trade payables at 31 December 2018 were \$23k more than the previous period end, due to the health care premium insurance (\$17k), software fees (\$2k) and training fees (\$4k) not being paid at year end in comparison to the prior year end.

Accruals: The Office's accruals were under budget by \$3k as it was anticipated there would be higher audit fees due to the change in year end to December. However, the audit fees remained the same for the 31 December 2018 and actual accruals are consistent with the actual from the prior 18-month period end.

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NOTE 5: EMPLOYEE ENTITLEMENTS (CURRENT)

2017 Actual	Current employee entitlements are represented by:	2018 Actual	2018 Original/Final Budget	2018 Actual vs. Original Budget
\$000		\$000	\$000	\$000
81	Annual leave	125	105	20
48	Time off in Lieu	37	30	7
129	Total employee entitlements	162	135	27

Explanation of major variances against the original budget and prior year actual:

Actual annual leave was \$20k greater than budget due to conducting more interim work in October and November 2018 and employees not being able to reduce their buildup of annual leave. This also caused annual leave to increase by \$44k from prior period's actual amount. Time off in lieu was over budget by \$7k for similar reasons to annual leave, but it was lower (by \$11k) than last period end actual due to employees using their time off in lieu and some being paid out.

NOTE 6: SURPLUS PAYABLE

2017 Actual		2018 Actual	2018 Original/Final Budget	2018 Actual vs. Original Budget
\$000		\$000	\$000	\$000
-	Surplus payable	447	102	345
-	Total	447	102	345

Explanation of major variances against the original budget and prior year actual:

Actual to budget and prior year: The Office achieved a surplus of \$566k, which was higher than the budgeted surplus of \$190k. The Chair of PAC in accordance with section 39(f) of the PMFL approved the Office to offset the remaining accumulated deficit (\$119k) against the current year surplus resulting in only \$447k being payable back to the Government. This resulted in a higher surplus payable than budget by \$345k. As at 31 December 2017 there was no surplus payable to the Government as a result of the deficit incurred in the prior 18-month period.

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NOTE 7: UNEARNED REVENUE

2017 Actual \$000		2018 Actual \$000	2018 Original/Final Budget \$000	2018 Actual vs. Original Budget \$000
648	Unearned revenue	467	-	467
648	Total	467	-	467

Explanation of major variances against the original budget and prior year actual:

As at 31 December 2018 actual unearned revenue was \$467k under budget due to a change in our billing methodology that was implemented in late 2016-17 for several clients to pay audit fees in increments (50% upfront; 40% progress billing and final 10% upon issuance). This was not budgeted for. There was a decrease in unearned revenue by \$181k from the prior period as a result of fewer clients being billed in the last quarter of 2018 for staged billings.

NOTE 8: CONTRIBUTED CAPITAL

According to the accounting policies of the Cayman Islands Government, goods and services provided between core government entities do not incur a realizable charge. The Office was unable to estimate the fair value of contributed goods and services received during the year due to the lack of accounting systems to record the costs of these transactions in accordance with the accounting standards.

For example, services provided to the Office include: human resource services, financial support services, legal services, computer hardware & systems support services, and software licensing fees.

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NOTE 8: CONTRIBUTED CAPITAL (CONTINUED)

2017 Actual \$000		2018 Actual \$000	2018 Original/Final Budget \$000	2018 Actual vs. Original Budget \$000
103	Opening net assets/equity 2004/05	103	103	-
404	Equity injections:	404	404	-
	2004/05: \$222k			
	2005/06: \$ 5k			
	2007/08: \$177k			
181	Contributed goods & services (2010/11)	181	181	-
688	Total contributed capital	688	688	-

Explanation of major variances against the original budget and prior year actual:

There were no variances in contributed capital from budget as the Office did not request any equity injection during the current fiscal year for purchase of office furniture and equipment as typically office furniture and equipment is funded through our depreciation. Therefore, contributed capital remained consistent with the prior year actual.

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NOTE 9: REVENUE

2016/17 Actual (18 Months)		2018 Actual (12 Months)	2018 Original Budget	2018 Final Budget	2018 Actual vs. Original Budget
\$000		\$000	\$000	\$000	\$000
	Revenue				
921	Audit services provided to Public Accounts Committee	752	735	752	17
2,447	Audit services provided to other government agencies	2,332	2,144	2,144	188
3,368	Total revenue	3,084	2,879	2,896	205

Explanation of major variances against the original budget and prior year actual:

Original Budget versus actual: Actual audit service fees to PAC for the 31 December 2018 year end were \$17k above the budgeted amount as a result of extra funding requested through a supplemental budget, which was approved by the Legislative Assembly in December 2018. Our audit services to PAC were actually much more than budget as we did more performance audit work than planned, but only billed PAC for the budgeted revenue amount. There was also an increase in audit services provided to other government agencies over the budgeted amount by \$188k. This increase was a result of the timing of when the financial statement audit work was completed for many jobs as it was anticipated more work would have been completed in the prior period. In addition, the Office’s billing policy was changed to fully bill clients for the entire engagement fee; whereas, in prior years we offered discounts on the engagement fee when the cost of the engagement did not achieve a certain threshold.

Current year actual versus prior year actual: The current year actuals are not directly comparable to the prior period as the current period is for 12 months versus 18 months for the prior period. Audit services to PAC fees decreased by \$169k over the prior period as a result of the 2018 year being 6 months less than the 18-month prior period. The decrease in fees was not as substantial as it may have been due to a continued focus on using in-house staff (rather than consultants) to conduct more performance audit work during 2018. Actual audit services provided to other government agencies for financial statement audits during the 2018 were \$115k less than the prior 18-month period actual. The decrease was not as substantial as it may have been due to more interim audit work being performed and the completion of several backlogged audits.

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NOTE 10: PERSONNEL COSTS

2016/17 Actual (18 Months) \$000		2018 Actual (12 Months) \$000	2018 Original Budget \$000	2018 Final Budget \$000	2018 Actual vs. Original Budget \$000
2,515	Salaries, overtime & allowances (including employee pension contributions)	1,891	1,774	1,872	117
267	Health insurance	191	210	210	(19)
130	Employer pension expense	98	94	96	4
31	Other personnel costs	6	37	37	(31)
2,943	Total personnel costs	2,186	2,115	2,215	71

Explanation of major variances against the original budget and prior year actual:

Salaries, overtime & allowances:

Actual to original budget: salaries, overtime and allowances were over budget by \$117k due to several factors:

- During the year Government awarded civil servants a 5% Cost of Living Allowance increase effective 1 July 2018, which also applied to our Office. This increase (\$35k) was not included when preparing the budget as government informed us that it would be funded centrally. However, this was not the case and therefore savings had to be found in other areas of our operations.
- Overtime payments were over the original budget by \$52k due to paying more overtime in our busy season and a concerted effort to conduct more interim financial statement audit work in October and November 2018.
- Movement in annual leave was over the original budget by \$39k as fewer employees were able to use their allotted vacation leave during 2018 (see also Note 5).

These over expenditures from budget were nominally offset by savings in some of the allowances paid out during the year. However, to cover the majority of the increased costs we requested from government to vire \$100k from operating expenses to personnel costs as we had savings in professional fees due to using in-house staff rather than consultants for performance audit work (see final budget and Note 11 professional fees).

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NOTE 10: PERSONNEL COSTS (CONTINUED)

Salaries, overtime & allowances (continued):

Current year actual to prior year actual: salaries were \$624k lower than the prior period due to salaries being for 12 months versus an 18-month period.

Health insurance: Health insurance benefits were \$19k less than budget due to premiums being less as a result of the status of employees not changing as anticipated (i.e. marital status, etc.). Health insurance benefits were \$76k less than the prior period due to this being a 12 month period versus an 18-month period.

Other personnel costs: These costs pertain to recruitment, freight, and leave passages. The Office was under budget by \$31k as a result of staff turnover being lower than anticipated and not requiring costs to relocate personnel back to their home countries or bringing new employees into the Cayman Islands. The current period expenses were substantially lower than the prior 18-month period due to the limited recruitment costs and low staff turnover during 2018.

NOTE 11: OPERATING EXPENSES

2016/17 Actual (18 Months) \$000		2018 Actual (12 Months) \$000	2018 Original Budget \$000	2018 Final Budget \$000	2018 Actual vs. Original Budget \$000
145	Operating leases	97	99	99	(2)
231	Professional fees	96	246	146	(150)
43	Travel & subsistence	33	39	39	(6)
35	Other goods and services	21	36	36	(15)
19	Software licensing fees	15	28	28	(13)
15	Audit fees	15	18	18	(3)
26	Training	13	28	28	(15)
17	Janitorial services	12	12	12	-
17	Utilities	11	20	20	(9)
4	Computer and communication supplies	2	3	3	(1)
6	Legal fees	1	25	25	(24)
4	Insurance	-	-	-	-
562	Total operating expenses	316	554	454	(238)

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NOTE 11: OPERATING EXPENSES (CONTINUED)

Explanation of major variances against the original budget and prior 18-month period actual:

Professional Fees: Professional fees were under budget by \$150k as a result of continuing to use more in-house staff to conduct our performance audit work rather than using consultants. This change in use of consultants and the shorter period of 12 months resulted in a decrease of \$135k in professional fees from the prior 18-month period.

Training: The Office was under budget by \$15k due to \$10k being budgeted for CPA studies, which was utilized nominally (\$2k) by staff during the year. In addition, the Office only supported the one day of attendance at the CIIPA Summit instead of the full summit and saved another \$4k. The remaining training costs were in line with the budget. The current period training expenses were \$13k less than the prior 18-month period actual expenses, which is in line considering this was a 12-month period.

Software Licensing Fees: Software licensing fees were \$13k under budget due to not purchasing new software packages that we anticipated, and \$4k under the prior 18-month period actual due to the 18-month period versus a 12 month period.

Legal Fees: Legal fees were \$24k under budget and slightly lower than the prior 18-month period actual as there was less need for legal advice on the performance audits.

NOTE 12: COMMITMENTS – PROPERTY LEASE

The Office has a non-cancellable accommodation lease with Beaufort Investments Ltd. for leased property on the third floor, Anderson Square, Shedden Road, George Town. In September 2014, the Office signed a 5-year lease effective from 1 November 2014 and expiring on 31 October 2019. The Office must provide 6 months’ notice to the Landlord for a new lease to be negotiated for a further five years at an agreed upon open market rental rate.

Type	One year or less \$000	One to five years \$000	Over five years \$000	2018 Total \$000	2017 Total \$000
Non-cancellable accommodation lease	79	-	-	79	174

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NOTE 13: CONTINGENT LIABILITIES

At 31 December 2018, there are no quantifiable and non-quantifiable contingent liabilities (31 December 2017: no contingent liabilities).

NOTE 14: RECONCILIATION OF NET SURPLUS TO CASH FLOWS GENERATED FROM OPERATING ACTIVITIES

2016/17 Actual (18 Months) \$000		2018 Actual (12 Months) \$000	2018 Original/Final Budget \$000	2018 Actual vs. Original Budget \$000
(161)	Net surplus / (deficit)	566	190	376
	Non-cash movements			
24	Depreciation	16	20	(4)
(40)	Increase/(decrease)in payables/accruals	56	10	46
648	Increase/(decrease)in other current liabilities	(181)	-	(181)
(455)	Decrease/(increase) in receivables	(31)	(45)	14
(7)	Decrease/(increase) in prepayments	9	-	9
9	Net cash flows from operating activities	435	175	260

NOTE 15: RELATED PARTY TRANSACTIONS

The Office is controlled by the Cayman Islands Government and therefore government ministries, portfolios, statutory authorities, government companies and other government offices are considered related parties. As indicated in the approved 2018 and 2016-17 Annual Budget Statements of Government, there were no inter-agency charges between core government entities, except for audit services revenue. As a result, the Office was unable to make an estimate of the fair value of contributed goods and services received for the 2018 and 2016-17 fiscal years as described in note 8.

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NOTE 15: RELATED PARTY TRANSACTIONS (CONTINUED)

KEY MANAGEMENT PERSONNEL

As at 31 December 2018 there were four senior managers in the Office (31 December 2017: 4). Remuneration includes: regular salary, pension contributions, health insurance contributions, acting and duty allowance, and motor car upkeep. Total remuneration for senior management for the year ending 31 December 2018 was \$614k (18-month period ending 31 December 2017: \$942k). There were no loans made to key management personnel or their close family members in 2018. However, during the 18-month period ending 31 December 2017, in accordance with the *Personnel Regulations (2017 Revision), Schedule 1, 10.(a)(iv)* settlement loans were provided to the Auditor General and Director of Performance Audit in the amounts of \$12,000 and \$7,623 respectively. These two loans were repaid during the 18-month period and no amounts were outstanding as at 31 December 2017.

NOTE 16: FINANCIAL RISK MANAGEMENT

The Office is exposed to a variety of financial risks including credit risk and liquidity risk. The Office's risk management policies are designed to identify and manage these risks, to set appropriate risk limits and controls, to monitor the risks and adhere to limits by means of up to date and reliable information systems. These risks are managed as required by the *Financial Regulations (2018 Revision)*.

CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Office. Financial assets which potentially expose the Office to credit risk comprise cash and cash equivalents and accounts receivable.

The Office is exposed to potential losses that would be incurred if the counterparty to the bank balances fails to discharge its obligation to repay. All bank balances are with one financial institution located in the Cayman Islands which management considers financially secure and well managed.

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NOTE 16: FINANCIAL RISK MANAGEMENT (CONTINUED)

The Office is also exposed to a significant concentration of credit risk in relation to accounts receivable, all of which are due from other Government entities. No credit limits have been established. As at 31 December 2018 and 31 December 2017, no provision for doubtful debts has been established as none of these assets are impaired and management considers these debts to be recoverable in full. Notwithstanding the concentration risk in relation to accounts receivable, management does not consider the Office to be exposed to significant credit risk as all of the counterparties are other government entities.

The carrying amount of financial assets recorded in the financial statements represents the Office's maximum exposure to credit risk. No collateral is required from debtors.

LIQUIDITY RISK

Liquidity risk relates to the Office's ability to meet its payment obligations associated with its financial liabilities when they are due.

The ability of the Office to meet its debts and obligations is dependent upon its ability to collect the debts outstanding in a timely basis. Management manages liquidity risk through monitoring cash flows from debtors, paying creditors on their due dates, and if the circumstances required it to obtain funding from Government to temporarily fund any shortfalls, the Office would have with its own cash flows. As at 31 December 2018 and 31 December 2017, all of the financial liabilities were due within three months of the year-end dates.

NOTE 17: FINANCIAL INSTRUMENTS – FAIR VALUES

As at 31 December 2018 and 31 December 2017, the carrying value of cash and cash equivalents, accounts receivable, work in progress, accounts payable, employee entitlements, and surplus payable upon demand approximate their fair value due to their relative short-term maturities.

Fair value estimates are made at a specific point in time, based on market conditions and the information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions, economic conditions and other factors could cause significant changes in fair value estimates.

APPENDIX 1 – ENTITIES AUDITED BY THE AUDITOR GENERAL

Under the PMFL the Auditor General is responsible for carrying out the audits of all public sector entities. The Office relies on the work performed by private sector audit firms for a number of its financial statements audits. The following list provides details about who carried out the audits during 2018 for the financial statement audits ending 31 December 2017. In July 2018, the Office tendered out several financial statement audits for the period ending 31 December 2018 to 31 December 2022. The following list also provides details about who will carry out the audits for the financial statement audits ending 31 December 2018 to 31 December 2022.

Entity	Auditor 31 Dec 2017	Auditor 31 Dec 2018 to 2022
Ministries, Portfolios and Offices:		
Cabinet Office	OAG	OAG
Information Commissioner’s Office	KPMG	N/A
Judicial Administration	KPMG	KPMG
Ministry of Commerce, Planning and Infrastructure	OAG	OAG
Ministry of Community Affairs	OAG	OAG
Ministry of District Administration, Tourism and Transport	OAG	OAG
Ministry of Education, Youth, Sports, Agriculture and Lands	OAG	OAG
Ministry of Finance and Economic Development	OAG	OAG
Ministry of Financial Services and Home Affairs	OAG	OAG
Ministry of Health, Environment, Culture and Housing	OAG	OAG
Ministry of Human Resources and Immigration	OAG	OAG
Office of the Complaints Commissioner	KPMG	N/A
Office of the Director of Public Prosecutions	KPMG	KPMG
Office of the Ombudsman	KPMG	KPMG
Portfolio of the Civil Service	OAG	OAG
Portfolio of Legal Affairs	KPMG	KPMG

Entity	Auditor 31 Dec 2017	Auditor 31 Dec 2018 to 2022
Statutory Authorities & Government Companies		
Auditors Oversight Authority	OAG	OAG
Cayman Airways Limited	PWC	KPMG
Cayman Islands Airport Authority	OAG	OAG
Cayman Islands Development Bank	OAG	OAG
Cayman Islands Monetary Authority	OAG	OAG
Cayman Islands National Museum	EisnerAmper	OAG
Cayman National Cultural Foundation	KPMG	OAG
Cayman Islands Stock Exchange	Deloitte	PwC
Cayman Turtle Farm (1983) Ltd.	KPMG	Grant Thornton
Children & Youth Services Foundation	OAG	KPMG
CINICO	KPMG	KPMG
Civil Aviation Authority	PwC	KPMG
Electricity Regulatory Authority	OAG	N/A
Health Services Authority	OAG	OAG
Information and Communications Technology Authority	OAG	N/A
Maritime Authority of the Cayman Islands	OAG	Grant Thornton
National Drug Council	OAG	KPMG
National Gallery of the Cayman Islands	EisnerAmper	EisnerAmper
National Housing Development Trust	OAG	OAG
National Roads Authority	OAG	OAG
Port Authority of the Cayman Islands	OAG	OAG
Public Service Pensions Board	OAG	OAG
Segregated Insurance Fund	OAG	OAG
Sister Islands Affordable Housing Development Corporation	OAG	KPMG
Tourism Attractions Board	OAG	OAG
University College of the Cayman Islands	OAG	Grant Thornton
Utility Regulation and Competition Office of the Cayman Islands	OAG	OAG
Water Authority of the Cayman Islands	KPMG	KPMG

APPENDIX 2 - REPORTS ISSUED AND IN PROGRESS DURING 2018

Reports Issued during 2018

Reports Issued	Date of Issue	Summary
Government's use of consultants and temporary staff	February 2018	<p>The report specifically looked at how well the Government plans for their use; how effectively it procures consultants to ensure that it receives value for money; and how well it manages consultants.</p> <p>Government uses consultants and temporary staff to support the delivery of its objectives and priorities but does not monitor how much it is spending on them.</p> <p>Government needs to better demonstrate the value for money obtained from using consultants.</p>
Workforce planning and management in Government	April 2018	<p>The report specifically looked at how well the civil service plans and manages its workforce to meet its strategic goals; how effective it is at attracting, retaining and supporting its workforce; if it has relevant and reliable information about its staff and how it uses this to support workforce planning and decision making.</p> <p>Government has already started to improve its workforce management but there is scope to further improve and better integrate its approach.</p> <p>Government needs to improve its IT systems for workforce management. The systems in place are not well-designed, integrated or user-friendly, which leads to inefficiencies in both inputting and extracting information for decision making.</p>
Owen Roberts International Airport (ORIA) Terminal Redevelopment project: Progress update as at 30 August 2018	August 2018 (Not made public until January 2019 due to some commercial sensitivities.)	<p>The report highlights that estimates as at August 2018 indicated that the project was likely to cost around \$64.37 million, almost 20 per cent more than contract prices and would not be complete until February 2019.</p> <p>The report states that governance and oversight of the project has improved over time but there have been challenges in managing the project. Project management has been hampered by the poor performance of the lead</p>

Reports Issued	Date of Issue	Summary
Owen Roberts International Airport (ORIA) Terminal Redevelopment project: Progress update as at 30 August 2018 (continued)		consultant.
Follow-up on Past PAC Recommendations	October 2018	<p>The report assesses how effectively the government has implemented recommendations made by the PAC in response to its hearings into reports from the Auditor General's Office.</p> <p>Government is implementing some of the Public Accounts Committee's (PAC) recommendations but overall progress is still slow.</p> <p>The report assesses whether government has implemented the PAC's recommendations in eight reports. It assesses the government's formal responses to four PAC reports tabled between March 2017 and March 2018, provided in its Minute of June 2018. It also assesses progress with four reports that the Office of the Auditor General previously assessed as limited or some progress in summer 2017. The report provides both a high-level and detailed assessment for each report.</p>
Fighting Corruption in the Cayman Islands	November 2018 (Not made public until January 2019)	<p>The report looks at the progress made in developing a national framework for fraud and corruption, including legislation, anti-corruption bodies and policies and procedures.</p> <p>Progress has been made in developing a national framework for fighting fraud and corruption in the Cayman Islands, including passing legislation, setting up anti-corruption bodies and extending the remit of others, and developing and strengthening government policies and procedures. However, these measures do not mean that the Cayman Islands are free from fraud and corruption.</p> <p>The report highlights that the Cayman Islands has a range of legislation in place and uses a wide-ranging definition of corruption. It reports that the Anti-Corruption Commission and its work with other agencies, including the OAG and the Royal Cayman Islands Police Service, play a significant role in the fight against fraud and corruption.</p> <p>The report also looks in more detail at the arrangements in place for preventing fraud and corruption in the planning sector, specifically the Department of Planning, Central Planning Authority and Development Control Board.</p>

Reports in Progress as at 31 December 2018

Reports in Progress	Summary	Progress
Public Interest Report - Key Management and Board Remuneration in Statutory Authorities and Government Companies during 2016-17	The public interest report will provide an analysis of the remuneration of key management personnel in Statutory Authorities and Government Companies (SAGCs) as well as compensation paid or benefits provided to members of SAGC Boards of Directors for the 18-month period from 1 July 2016 to 31 December 2017.	Reporting stage – draft report nearly finalized. Report is expected to be issued in January 2019.
General Report on the results of the 2016-17 financial audits	This compendium report will summarise the results of the audits of the 42 public sector entities in the Cayman Islands Government and the consolidated Entire Public Sector (EPS) account for the Cayman Islands Government.	Reporting stage – draft report is being worked on. Report is expected to be issued in March 2019.
Customs	<p>The objective of our audit was to determine how efficient and effective Cayman Islands Customs is at collecting revenue and protecting the border.</p> <p>The audit covered the revenue collection and border security operations of Cayman Islands Customs, including the Department of Customs in the Ministry of Finance and Economic Development and Customs functions within District Administration in the Ministry of District Administration, Tourism and Transport. The audit does not look at border protection issues outside the responsibility of Cayman Islands Customs.</p>	Reporting stage – draft report is being worked on. Report is expected to be issued in March 2019.
Government's use of Outsourced Services	<p>The objective of this audit is to determine how effectively the Cayman Islands Government use outsourced services and ensures that it is obtaining value for money.</p> <p>The audit is focused on core government only, i.e. Ministries, Portfolio and Offices and covered the five years 1 July 2012 to 30 June 2017.</p>	Examination stage. Emerging messages being developed. Report is expected to be issued in April 2019.
School Education	<p>The objective of this audit is to determine how efficiently and effectively the Ministry of Education is using its resources to maximize student achievement.</p> <p>The audit will cover the Ministry of Education, Department of Education Services and public schools. The audit will consider the role of key stakeholders, such as the Education Council. The private school sector is included in the audit scope in relation to government funding for the sector and Year 12 scholarship funding.</p>	Planning Stage. Report is expected to be issued in May 2019.

Reports in Progress	Summary	Progress
Improving Financial Accountability and Transparency	<p>The objective of this audit is to assess how effective the Cayman Islands Government is at budgeting, financial management and reporting to enhance transparency, accountability and long-term financial sustainability.</p> <p>The audit will focus on progress during the five-year period from 2014 through 2018.</p>	<p>Planning Stage.</p> <p>Report is expected to be issued in May 2019.</p>
Efficiency of Summary Courts	<p>The objective of this audit is to evaluate the efficiency of the Cayman Islands judicial system in handling Summary Court (including Traffic Court) cases.</p> <p>The audit will review the Summary Court operations (including Traffic Court) of the justice system in the Cayman Islands.</p>	<p>Planning Stage.</p> <p>Report is expected to be issued in June 2019.</p>

APPENDIX 3 – OUTPUTS DELIVERED 2018

The outputs delivered in 2018 to the PAC as per the Annual Budget Statement for the OAG.

AUD 2	Investigations and Reports			
Description Audit reports and advice to Public Accounts Committee (PAC) and other Legislative Committees relating to the following: <ul style="list-style-type: none"> • Management of executive financial transactions • Financial Management of Entire Public Sector (EPS) or of any Ministry, Portfolio, Statutory Authority or Government Company • The economy, efficiency and effectiveness of any Ministry, Portfolio, Statutory Authority or Government Company • Other matters of public interest as determined by the Auditor General 				
Measures		2018 Actual	2018 Original Budget	2018 Final Budget
Quantity				
<ul style="list-style-type: none"> • Number of reports issued to the Legislative Assembly • Number of audits in progress / partial reports at year end 		5 7	3-5 2-4	3-5 2-4
Quality				
<ul style="list-style-type: none"> • Issued reports are reviewed and signed off by Audit Director and/or Auditor General • Request client's comments on the draft reports and amend the final report if necessary 		100% 100%	100% 100%	100% 100%
Timeliness				
<ul style="list-style-type: none"> • Auditor General reports become public documents within two weeks of submission to the Speaker of the Legislative Assembly. • All reports are publicly available through the website within two days after becoming a public document. 		20%* 100%	100% 100%	100% 100%
Location				
Cayman Islands: Office of the Auditor General, 3 rd Floor Anderson Square, George Town, and Client premises (local & international)		100%	100%	100%
Cost (of producing the Output)		\$760,682	\$735,000	\$735,000
Price (paid by PAC for the output)		\$752,109	\$735,000	\$752,109
Related Broad Outcome:				
8. Culture of Good Governance				

* Note: It is our practice to release the reports publically 2 days after we have briefed PAC on the reports. As PAC did not hold administrative meetings shortly after reports were tabled to the Speaker of the LA, we were unable to meet the timeliness measure.

Contact us

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Complaints

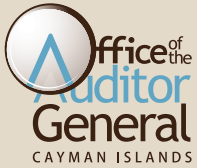
To make a complaint about one of the organisations we audit or about the OAG itself, please contact Garnet Harrison at our address, telephone or fax number or alternatively email: garnet.harrison@oag.gov.ky

Freedom of Information

For freedom of information requests please contact Garnet Harrison at our address, telephone or fax number. Or alternatively email: foi.aud@gov.ky

Media enquiries

For enquiries from journalists please contact Sue Winspear at our phone number or email: Sue.Winspear@oag.gov.ky



March 2019