

FINANCIAL REPORTING OF THE CAYMAN ISLANDS  
GOVERNMENT



DECEMBER 2017



**To help the public  
service spend wisely**



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# EXECUTIVE SUMMARY

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The annual reports and financial statements of the Government are the key documents that enable the Legislative Assembly and the residents of the Cayman Islands to hold public sector entities and the Government accountable for their use of public money.

In this report, I describe the improving state of financial management and reporting in the Cayman Island public service over recent years and make further suggestions for improvement. The report provides appendices that are rich in information about the financial performance of the individual Ministries, Portfolios and Offices (Appendix E) and Statutory Authorities and Government Companies (SAGCs) (Appendix D), supporting financial analysis on them (Appendices F and G) as well as the status of the 2014-15 and 2015-16 audits including the audit opinions I have issued and details of the nature of the qualification points I have given (Appendices A, B, C and I).

The improvements in the timeliness and quality of financial reporting in the Cayman Islands public services has been considerable over recent years and this trend continued in 2014-15 and 2015-16. The improvement in 2015-16 was significant because it was the first year that all Ministries, Offices and Portfolios, along with the majority of the SAGCs, provided an annual report to accompany their financial statements and I recommend MLAs and the public to read these to get a fuller understanding of government business. Producing an annual report is the final step in the accountability chain as it puts the financial statements into context by explaining what public money has been spent on and what the business has achieved. I would urge all entities to produce an annual report for 2016-17 financial year and publish these on their websites.

The financial results reported by the entities (Appendices D and E) provide a mixed picture, although overall there continues to be a positive improvement in financial performance over the years 2014-15 and 2015-16. Five SAGCs (Cayman Turtle Centre, the Maritime Authority (MACI), the Port Authority (PACI), Health Services Authority (HSA) and the National Housing Development Trust (NHDT)) reported a deficit for the year ending 30 June 2016 and two Ministries and Offices overspent their budget (Judicial Administration and Ministry of Home Affairs). Appendix F demonstrates that several SAGCs show signs of being under significant financial strain and having challenges meeting their current obligations. This will continue to be the case in most instances without changes in operations, business restructuring or ongoing and further government support or changes in government policy.

My Office looks forward to continuing our work with Government and the individual entities as they continue on the path of improving financial reporting and restoring accountability for the use of public funds.

# INTRODUCTION

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1. I am pleased to present this report to the Legislative Assembly that summarises my Office's financial audits of the Entire Public Sector (EPS) and the 42 public sector entities that it contains (15 Ministries, Offices and Portfolios and 27 Statutory Authorities and Government Companies (SAGCs) for the years ending 30 June 2015 and 2016. I believe that Members of the Legislative Assembly will find this report useful in their role of ensuring financial accountability and transparency for Government operations.
2. The majority of the 42 entity financial audits are undertaken by my staff and 14 entity audits are contracted out to private sector firms (namely Deloitte, Eisner Amper, KPMG & PwC) and subject to a final OAG quality review and my sign off. My staff also audits the Government's consolidated Entire Public Sector (EPS) account.
3. Timely, accurate and reliable financial information is a fundamental component of ensuring the effective governance and accountability of Government and public entities. Without this information decision making is compromised as Legislators and officials cannot make effective and robust decisions regarding the allocation of resources and effective management of resources at their disposal. Furthermore, the Government and public bodies cannot be held accountable for how they have used public money.
4. The improvements in the timeliness and quality of financial reporting in the Cayman Islands public services has been considerable over recent years and this trend continued in 2014-15 and 2015-16. The improvement in 2015-16 was particularly significant because it was the first year that all Ministries, Offices and Portfolios, along with the majority of the SAGCs, provided an annual report to accompany their financial statements. Producing an annual report is the final step in the accountability chain as it puts the financial statements into context by explaining what public money has been spent on and what the business has achieved.
5. I would like to thank the staff of all public sector entities, especially the Finance teams for their efforts and it is commendable that so many now have clean opinions. I would like to thank my team at the Office of the Auditor General and our contracted auditors at Deloitte, Eisner Amper, KPMG & PwC for their commitment and efforts in supporting this improvement.

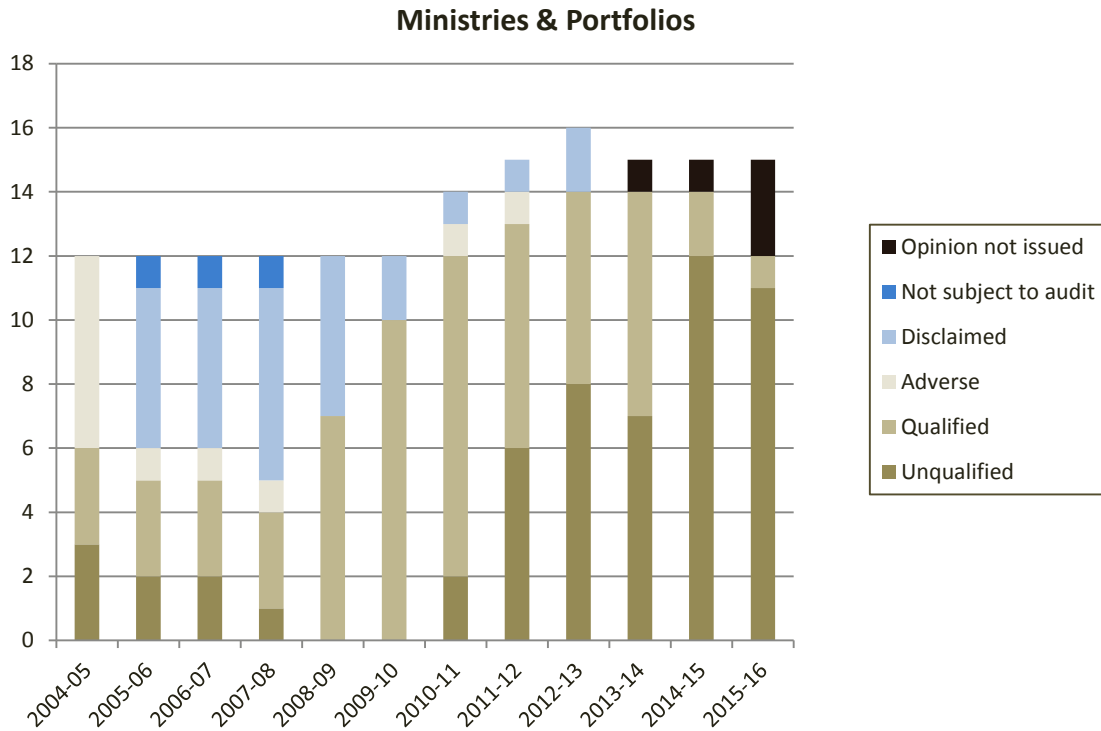
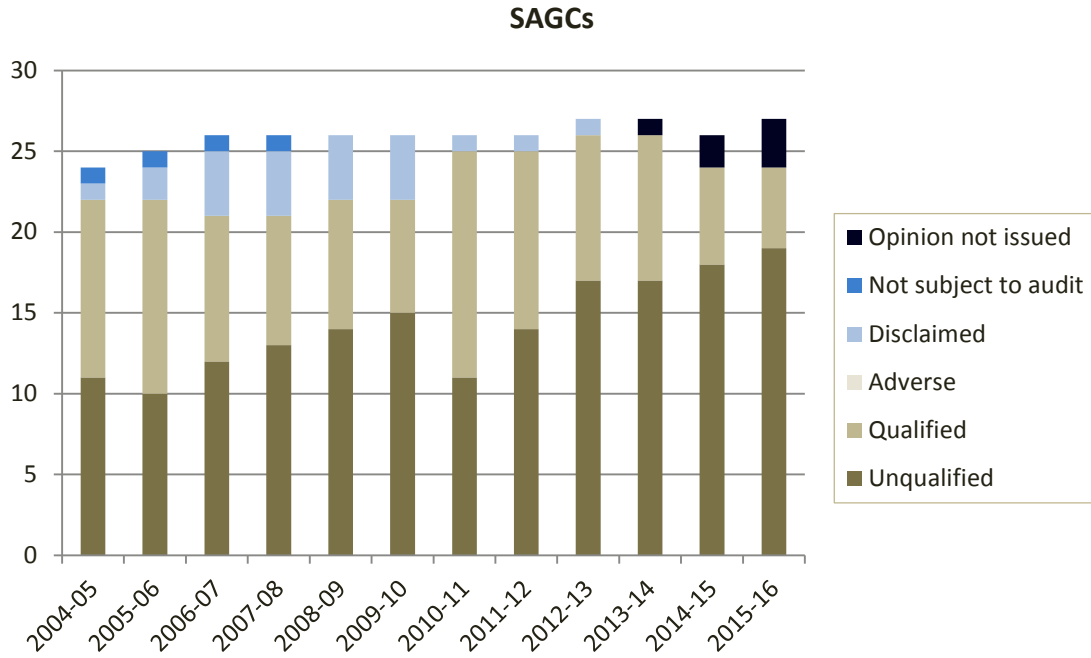
# THE STATE OF FINANCIAL MANAGEMENT AND REPORTING IN THE CAYMAN ISLANDS GOVERNMENT

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## INTRODUCTION

6. The outcomes from our audits for 2014-15 and 2015-16 have continued to show improvement in the quality and timeliness of the annual financial reporting for Entire Public Sector (EPS) and all government entities including core government and SAGCs. As at the date of this report, the audits of the financial statements for all but six entities have been completed. The audits outstanding are: Cabinet Office (2015-16); Ministry of Education, Employment & Gender Affairs (2013-14, 2014-15 & 2015-16); Ministry of Home Affairs (Health & Culture) 2015-16; CI Airports Authority (2013-14, 2014-15 & 2015-16); CINICO (2014-15 & 2015-16); and Tourism Attraction Board (2015-16).
7. For the year ending 30 June 2016, I have so far issued 30 unqualified opinions, 6 qualified opinions, an adverse opinion for the EPS account and a disclaimer for the schedule of appropriations. There remain 6 entity audits still to be completed for that year. With respect to the year ending 30 June 2015, I have issued 31 unqualified opinions and 8 qualified opinions with 3 audits to be completed and an adverse opinion for the EPS and a disclaimer for the schedule of appropriations.
8. Further information on the audits are provided in Appendices A and B. They include information about the audit opinions issued, the date they were signed and the date they were tabled in the Legislative Assembly. Appendix C provides information about the audit opinions I can provide according to *International Standards on Auditing*.
9. Exhibit 1 on the following page shows the trend in the audit opinions that my Office has issued since 2004-05.

**Exhibit 1: Core government and SAGCs audit opinions for last 12 years**





10. The production of a consolidated set of financial statements for the Government as a whole otherwise known as the EPS account is becoming well established in Government. While the statements remain heavily qualified to the point where the opinion is considered to be an adverse opinion (the statements cannot be relied upon by the reader), we once again saw progress in their quality, particularly as far more of the underlying entities had their financial statements finalized for the consolidation process. The EPS also includes the transactions that are termed “Executive” transactions, such as coercive revenue, they are areas of expenditure and income that are audited only through the EPS and for which there remain some systemic issues (see Appendix H). Executive spending and revenues fall to the responsibility of Government Ministers rather than the Chief Officers who are responsible for the Ministries, Portfolios and Offices and Chief Executive Officers (CEOs) who are responsible for their SAGC.

## **QUALITY OF THE FINANCIAL STATEMENTS**

11. The purpose of annual financial reporting is to provide accountability to the Legislative Assembly of the Cayman Islands about the financial position of government entities and how they have used public resources. It is expected that all entities should prepare timely annual financial statements and that they receive an unqualified audit opinion providing assurance that the information presented is credible and reliable.
12. A disclaimer of opinion or adverse opinion should be considered as a fundamental failure by the entity’s management which undermines public accountability, transparency and trust. Apart from clearly demonstrating that an entity cannot effectively account for how it used resources, these opinions can also report failures of governance and internal control.
13. It is within this context that the overall quality of the financial statements of the Cayman Islands Government continues to improve. We are now at a point where nearly all of the financial statements present fairly the financial results of the entities in line with the relevant accounting standards.
14. As shown in Exhibit 1, 2015-16 resulted in an increasing number of entities receiving unqualified audit opinions. As at the date of this report 30 out of 36 entities that have been audited so far have received an unqualified report for 2015-16 with 6 entity audits still outstanding. Exhibit 2 provides an analysis of the different qualifications across the 6 entities that have received qualified audit reports on their 2015-16 financial statements so far.

**Exhibit 2: Entity Qualifications 2015-16**

Entity	Post-retirement healthcare Liability	Property Plant and Equipment	Equity	Cash and Cash Equivalents	Contingent Liabilities	Insurance premium Classification	Completeness of revenue	Completeness of receivables	Accumulated deficit
Judicial Administration									
Health Services Authority									
Cayman National Cultural Foundation									
Cayman Islands National Museum									
National Gallery of the Cayman Islands									
Maritime Authority of the Cayman Islands									

15. For the financial statements that have been qualified so far, in most instances this was due to the lack of appropriate supporting information, not enabling me to reach a conclusion on a specific material balance or transactions. In three instances the audit reports contained only one substantive qualification matter.
16. The focus on timely submission of the financial statements for audit has resulted in some draft financial statements being submitted on time for audit but some of the working papers were insufficient to start the audit.
17. There are three qualification matters that are common across a number of entities relating to the completeness of revenue, property plant and equipment and post-retirement health care liability. In the case of the completeness of revenue matters, these result from a significant portion of revenue derived from cash donations which did not have the controls required for independent audit verification. Accordingly, I was unable to confirm that all revenues had been recorded in the accounts. I also qualified the HSA on the completeness of the reported revenues as the entity did not have the systems in place to record all of its revenues from patient services.

18. The qualifications relating to property plant and equipment were due to deficiencies in the fixed assets registers used to record assets which impacted my ability to opine on the related management assertions for both relevant entities.
19. The two entities that were qualified for post-retirement medical liability did not have an actuarial valuation prepared as a result they were unable to record an amount as at 30 June 2016.
20. I included “*matters of emphasis*” or “*other matters*” in the reports of 17 entities, which, highlighted matters I believed needed to be brought to the attention of the users of the financial statements. The most significant issue I included in these audit reports was my concern relating to some entities ability to continue operating without the financial support they were receiving from core government.
21. Specific details of each individual entity’s “*matters of emphasis*” and/or “*other matters*” are provided in Appendix I along with the detailed information on the qualifications reported for each entity in 2014-15 and 2015-16.

## **TIMELINESS OF THE FINANCIAL STATEMENTS**

22. Financial reporting by public sector entities provides information about the entity that is helpful to the users of general purpose financial reports and required for accountability and decision-making purposes.
23. Accounting standards identify a number of qualitative characteristics of the information contained in financial statements of public sector entities: relevance, faithful representation, understandability, timeliness, comparability, and verifiability. In this context timeliness means having information available for users before it loses its ability to be useful for accountability and decision-making purposes.
24. The usefulness of financial statements is impaired if the information is not made available to users within a reasonable time period. International Public Sector Accounting Standards (IPSAS) clearly states that an entity should issue its financial statements within six months of the reporting date. Under the Public Management and Finance Law (PMFL) the statutory deadline for entities to issue financial statements is 31 October or four months after the year end with preparers being given two months to prepare the statements and my Office, two months to audit these statements.
25. For the 2015-16 fiscal year, I received financial statement submissions for all entities by the 31 August statutory deadline, with only one exception which was received a few days later. The audits were completed for 28 of the 42 entities by the statutory deadline of 31 October. This is compared to 23 in 2014-15, 15 in 2013-14, 14 in 2012-13, 12 in 2011-12 and only 8 in 2010-11.

26. This situation presents a significant improvement over recent years and the position has undoubtedly been achieved through the leadership provided by the Government particularly through the Deputy Governor, in prioritizing this and through the constant oversight and pressure added by the PAC.
27. There now remain only eleven audits for six entities outstanding and it is hoped that all but three 2015-16 audits will be cleared before we begin work on the 2016-17 audits in early 2018. It will be hugely challenging to audit 42 entities 2016-17 accounts in the two months of March and April 2018 as required by the PMFL. To help maximize our chances of achieving this, my Office is undertaking interim audits for many entities for the first time and this is only now possible because so much of the audit backlog has been cleared. It will also require all entities to provide initial submissions that meet the quality standards for audit that faithfully represent the transactions of the entity, and to ensure that they are responsive to questions and issues raised by my team. If qualification matters are being raised during an audit, entities should be prepared to address those matters in a timely fashion to respect the statutory reporting deadlines.

## ACCOUNTABILITY

28. The tabling of the annual reports containing the financial statements in the Legislative Assembly is the final step in the accountability chain. Among other objectives, the annual reports provide explanations of the financial results. Without annual reports, it is almost impossible for stakeholders, Legislators and citizens, to understand how public resources have been used and to hold Government and public bodies accountable.
29. It is particularly pleasing and noteworthy that in 2015-16 for the first time, all Ministries, Portfolios and Offices submitted annual reports with their financial statements as did most SAGCs. This information is required by the PMFL and enhances the reader's understanding of the work of the entity over the past year including its objectives and achievements. It helps to contextualize the financial statements.
30. Once annual reports or financial statements are tabled in the Legislative Assembly, it can still be challenging for stakeholders to find the documents. Whilst they should be available on the website of the Legislative Assembly (<http://www.legislativeassembly.ky/>) each entity should be making their annual reports or financial statements accessible to all stakeholders on their own website and possibly through other appropriate media, to further promote transparency and accountability.
31. Looking forward, as financial statements are signed off within the statutory timeframes, the Government should build on its recent efforts and ensure these are tabled in the Legislative Assembly in accordance with the timescales required by the PMFL. Entities should also ensure that the annual reports and financial statements are made easily accessible to all stakeholders through publication on their websites.

# IMPROVING FINANCIAL INFORMATION FOR THE LEGISLATIVE ASSEMBLY AND THE PUBLIC

## INTRODUCTION

32. Given all Ministries, Portfolios and Offices now prepare annual reports as well as the majority of the SAGCs; these can be accessed by the MLAs and public to provide an understanding of how public resources have been used and to hold Government and public bodies accountable.
33. As a result I am providing only limited commentary and analysis on the financial performance of the Ministries, Portfolios and Offices and this is detailed in Appendix E. I provide a summary statement about the financial performance of all SAGCs given several still do not produce annual reports and this is detailed in Appendix D.
34. However, I discuss below other matters that will, in my opinion, improve financial management and accountability in the Cayman Islands if implemented.

## AUDIT & RISK COMMITTEE / AUDIT COMMITTEES

35. Generally accepted good practice in the management of public resources is the establishment of an Audit and Risk Committee (or similar) within each entity to provide assurance on risk management, governance and internal control to the Chief Executive Officer and the Board. Effective audit and risk committees can provide objective advice and insights into a public entity's strategic and organisational risk management framework, as well as identifying potential improvements to governance and internal control practices.
36. At present, an increasing number of SAGCs have established Audit Committees or similar. However, the core of Government lacks an Audit & Risk Committee to oversee the progress of Ministries and Portfolios in implementing: internal and external audit recommendations; managing risk; and otherwise providing the entity with the required assurance through a process of constructive challenge. This is a major deficiency in core Government as the Deputy Governor lacks assurance and has no way of ensuring that Ministries and Portfolios are implementing internal and external audit recommendations.

## FUNCTIONAL LEADERSHIP

37. Whilst accountability rightly resides at the entity level, the public sector as a whole can improve more quickly, efficiently and effectively where there is strong functional leadership provided across the public sector entities. This applies to all functional areas such as Finance, HR, IT, etc. There are many examples where functional leadership has made a positive impact and Government is

encouraged to think about how it can further strengthen functional leadership to provide a stronger and more efficient and effective public sector. The Ministry of Finance, through the Accountant General, provided strong functional leadership in the central management of the revaluation of all of the Core Governments' lands and buildings resulting in the removal of a qualification matter that affected numerous entities in prior years. In some instances this removal resulted in the respective entities obtaining a clean audit opinion for the first time.

## REGULATORY REPORTING OF SAGCS

38. Under section 46(2)(b) of the *PMFL*, it states that “A statutory authority or government company shall not produce an output during a financial year unless – the Governor in Cabinet, or another entity or person, has by way of formal agreement, agreed to pay for the full cost of the output produced” indicating that each SAGC should be recovering the full costs of their activities and not incurring deficits consistently over the reporting periods. In Table 3 of Appendix F, at least 8 SAGCs have reported deficits consistently over the five years, which is not in compliance with the *PMFL*, raising significant questions about their business strategy or government policy.

## IMPROVING GOVERNANCE AND INTERNAL CONTROLS

39. The effective and efficient production of reliable and credible financial information is predicated on sound governance, risk management and internal control frameworks which provide management with assurance regarding the:

- effectiveness and efficiency of operations;
- safeguarding of public assets;
- reliability of information in financial reports; and
- compliance of activities with applicable laws and regulations.

40. Such frameworks enable management to use financial information with confidence throughout the year to support effective decision making; and ensure that resources are not being wasted, mismanaged or abused and are being used in line with laws and regulations. Finally the frameworks enable entities to prepare reliable annual financial statements more efficiently and effectively, in turn leading to more efficient and timelier audits.

41. Audits of the financial statements are designed primarily to provide opinions on the financial statements, and are not designed to identify all matters or deficiencies in the internal control environments of audited entities, or uncover instances of fraud or wrongdoing.

42. However in our audits, we have identified a number of significant concerns around governance, internal control, and financial management and reporting, which we have reported to the entities

through individual “*Reports to those Charged with Governance*” also known as Governance Reports or ISA260 reports. Whilst these issues have not ultimately impacted on the opinions I have issued on the financial statements, they have a significant negative impact on the effective and efficient use of resources and the achievement of that entity’s business results.

43. Organisational capacity - The organisational capacity of a number of entities (e.g. National Housing Development Trust and Tourism Attraction Board) to establish effective financial management, governance, risk management and internal control arrangements, and produce compliant financial statements is an ongoing issue. The scale and size of some entities impact on their ability to retain the resources with the necessary skills and expertise, and put in place the appropriate frameworks and controls. For example a number of entities have challenges in ensuring the appropriate segregation of duties. This leads to increased risks of error, fraud, mismanagement and abuse and reduces the likelihood that timely and reliable financial statements are produced.
44. Risk management - The majority of entities do not have in place robust arrangements for managing risk. Risk management is a key element of a robust internal control environment as it enables directors and managers to effectively manage the risks to the achievement of the organisation’s objectives, and also take well informed decisions about the actions they need to take. Without effective arrangements in place an entity faces the risk that it will fail to achieve objectives, or that they will be delivered at much greater cost.
45. Board governance - For SAGCs to function effectively and be well governed boards and executive management need to have a good working relationship based on clearly delineated roles and responsibilities. It is important that all SAGCs have a functioning Board and Audit Committee in place at all times. Core Government lacks its own Audit and Risk Committee to provide systematic assurance on governance and controls to the Deputy Governor and this should be established as a priority during 2018.
46. Documentation held by entities - The quality of financial statement submissions and the supporting documentation has been a significant issue for a number of years, and has directly affected the opinions that I have issued. There has been improvement in recent years but there are still entities and areas where documentation is weak, and where it takes entities significant time to provide appropriate and sufficient evidence delaying the conclusion of the audit and the issuance of the financial statements. Therefore it is important that entities continue to work on improving their documentation and ensuring that all balances and transactions are properly supported by appropriate and sufficient evidence prior to submitting their draft financial statements to my Office by the statutory deadline.

## MANAGING FRAUD

47. As part of risk management entities should consider the risk of fraud, ensuring that they have mechanisms for identifying and responding to fraud risk factors, including the implementation of a fraud policy and fraud response plan. An increasing number of SAGCs now have these in place and in Spring 2017 the Cayman Islands Government implemented an Anti-fraud policy for application in core Government. This is good progress and it is now important that entities actively manage in line with their policies and embed this practice to reduce the opportunities for fraud and abuse to occur.

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## COMPLIANCE WITH LAWS AND REGULATIONS

48. We found a number of examples of non-compliance with relevant laws and regulations. For example, we continue to find instances of procurements not being carried out in accordance with the Financial Regulations especially sole source procurements which inevitably were not competitively tendered. Whilst in certain circumstances these may be appropriate there must be documented justifications and formal approvals for not following a competitive process and these are usually missing.

## CONCLUSION

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49. This report provides a summary of our audits of EPS, Ministries, Portfolios and Offices and the Statutory Authorities and Government Companies of the Cayman Islands Government for 2014-15 and 2015-16.

50. The quality of the Governments' financial reporting has improved significantly over the 5 years periods 2011-12 to 2015-16 over which time the amount of modified audit opinions i.e. qualified, adverse or disclaimed, has decreased from 51% to 17% of all audited entities. Over the same period there has been a marked increase in the number of entities preparing and tabling annual reports rather than only financial statements thereby meeting a key requirement of the PMFL and enhancing the level of financial accountability to key stakeholders.

51. As has been noted in previous general reports, the achievement of proper accountability for the use of public funds is indicative of the strength of the functional leadership in the Government and specifically the strength of the leadership over the finances of the country, so it is encouraging to see that those charged with this stewardship are taking positive and proactive steps to improve the management of public resources.



52. Whilst the story is one of progress regarding financial reporting, specifically at the individual entity level, there is still some way to go in achieving accountability as expected by accounting standards and as envisioned in the *Public Management and Finance Law*.
53. The most significant control and efficiency improvements I recommend are the establishment of an Audit and Risk Committee for Core Government and those SAGCs without one and a stronger functional leadership being provided to all public sector entities through the Ministry of Finance.
54. In addition to these recommendations, there remains some matters which still impede the production of relevant and reliable financial statements and steps should be taken to remove these impediments to further improve the timeliness, quality and usefulness of the financial statements:
- untimely completion of audits and public issuance of financial statements;
  - weaknesses in the internal control environments and governance of certain entities creating increased risks of mismanagement and abuse;
  - non-compliance with laws and regulations;
  - the capacity of some smaller entities to implement effective financial management, governance and internal control arrangements; and
  - delays in tabling entity reports and making results public.
55. As the Government continues to bolster its financial reporting it must now place emphasis on enhancing the framework for reporting service performance information with the objective of demonstrating how effectively and efficiently public resources are used, and the outcomes and benefits achieved.



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*7<sup>th</sup> December 2017*

## APPENDIX A – STATUS OF THE 2015-16 AUDITS

Entity	Date Audit Completed or Progress	Audit Opinion	Tabled in the Legislative Assembly
Cabinet Office	Substantially Complete		
Director of Public Prosecution	31 October 2016	Unqualified	27 March 2017
Information Commissioner's Office	31 October 2016	Unqualified	22 March 2017
Judicial Administration	31 October 2016	Qualified	27 March 2017
Ministry of Community Affairs	15 September 2017	Unqualified	
Ministry of District Admin, Tourism & Transport	18 November 2016	Unqualified	27 March 2017
Ministry of Education, Employment and Gender Affairs	In Progress		
Ministry of Finance and Economic Development	25 October 2016	Unqualified	15 March 2017
Ministry of Home Affairs	31 October 2016	Unqualified	24 February 2017
Ministry of Financial Services, Commerce and Environment	31 October 2016	Unqualified with Emphasis of Matter	24 February 2017
Ministry of Planning, Lands, Agriculture, Housing and Infrastructure	31 October 2016	Unqualified	15 March 2017
Ministry of Health and Culture	In Progress		
Office of the Complaints Commissioner	31 October 2016	Unqualified	22 March 2017
Portfolio of the Civil Service	31 October 2016	Unqualified with Emphasis of Matter	
Portfolio of Legal Affairs	31 October 2016	Unqualified	27 March 2017

Entity	Date Audit Completed or Progress	Audit Opinion	Tabled in the Legislative Assembly
Auditor Oversight Authority	21 October 2016	Unqualified	24 February 2017
Cayman Airways Limited	24 February 2017	Unqualified with Emphasis of Matter	
Cayman Islands Airport Authority	In Progress		
Cayman Islands Development Bank	26 October 2016	Unqualified with Emphasis of Matters	22 February 2017
Cayman Islands Monetary Authority	20 December 2016	Unqualified	1 November 2017
Cayman Islands National Insurance Company	In Progress		
Cayman Islands National Museum	26 October 2016	Qualified with Emphasis of Matter	23 August 2017
Cayman Islands Stock Exchange	28 October 2016	Unqualified	24 February 2017
Cayman National Cultural Foundation	31 October 2016	Qualified with Emphasis of Matter	
Cayman Turtle Farm (1983) Ltd.	28 October 2016	Unqualified with Emphasis of Matter	22 February 2017
Children & Youth Services Foundation	26 October 2016	Unqualified	22 February 2017
Civil Aviation Authority	31 October 2016	Unqualified	24 February 2017
Electricity Regulatory Authority	27 October 2016	Unqualified with Emphasis of Matter	22 February 2017
Health Services Authority	13 April 2017	Qualified with Other Matter	23 August 2017
Information and Communications Technology Authority	31 October 2016	Unqualified with Emphasis of Matter	
Maritime Authority of the Cayman Islands	31 October 2016	Qualified with Other Matter	24 February 2017
National Drug Council	21 October 2016	Unqualified	
National Gallery of the Cayman Islands	28 October 2016	Qualified with Emphasis of Matter and Other Matter	23 August 2017
National Housing Development Trust	24 October 2017	Unqualified with Other Matter	

<b>Entity</b>	<b>Date Audit Completed or Progress</b>	<b>Audit Opinion</b>	<b>Tabled in the Legislative Assembly</b>
National Roads Authority	26 May 2017	Unqualified with Emphasis of Matter	
Port Authority of the Cayman Islands	15 September 2017	Unqualified with Emphasis of Matter	
Public Service Pensions Board	28 October 2016	Unqualified with Emphasis of Matter	15 March 2017
Segregated Insurance Fund	26 October 2016	Unqualified with Other Matter	22 February 2017
Sister Islands Affordable Housing Development Corporation	31 October 2016	Unqualified	27 March 2017
Tourism Attraction Board	In Progress		
University College of the Cayman Islands	26 October 2016	Unqualified	
Water Authority of the Cayman Islands	31 October 2016	Unqualified	

## APPENDIX B – STATUS OF THE 2014-15 AUDITS

Entity	Date Audit Completed or Progress	Audit Opinion	Tabled in the Legislative Assembly
Cabinet Office	23 March 2017	Unqualified	
Director of Public Prosecution	30 October 2015	Unqualified	5 October 2016
Information Commissioner's Office	30 October 2015	Unqualified	18 November 2015
Judicial Administration	30 October 2015	Qualified	7 October 2016
Ministry of Community Affairs Youth & Sports	30 September 2016	Unqualified Emphasis of Matter	24 February 2017
Ministry of District Admin, Tourism & Transport	31 October 2015	Qualified	27 April 2016
Ministry of Education, Employment and Gender Affairs	In Progress		
Ministry of Finance and Economic Development	29 October 2015	Unqualified	5 October 2016
Ministry of Home Affairs	31 October 2015	Unqualified	1 June 2016
Ministry of Financial Services, Commerce and Environment	30 October 2015	Unqualified	5 October 2016
Ministry of Home Affairs, Health and Culture	25 September 2017	Unqualified with Other Matter	
Ministry of Planning, Lands, Agriculture, Housing and Infrastructure	20 October 2016	Unqualified	15 March 2017
Office of the Complaints Commissioner	30 October 2015	Unqualified	5 October 2016
Portfolio of the Civil Service	30 November 2015	Unqualified	20 October 2016
Portfolio of Legal Affairs	30 October 2015	Unqualified with Other Matter	5 October 2016

Entity	Date Audit Completed or Progress	Audit Opinion	Tabled in the Legislative Assembly
Auditor Oversight Authority	30 October 2015	Unqualified	4 May 2016
Cayman Airways Limited	18 March 2016	Unqualified with Emphasis of Matter	7 October 2016
Cayman Islands Airport Authority	Substantially Complete		
Cayman Islands Development Bank	30 October 2015	Unqualified with Emphasis of Matter	5 October 2016
Cayman Islands Monetary Authority	31 March 2016	Unqualified	24 February 2017
Cayman Islands National Insurance Company	Substantially Complete		
Cayman Islands National Museum	17 December 2015	Qualified with Emphasis of Matter and Other Matter	1 June 2016
Cayman Islands Stock Exchange	30 October 2015	Unqualified	5 October 2016
Cayman National Cultural Foundation	30 October 2015	Unqualified	15 March 2017
Cayman Turtle Farm (1983) Ltd.	30 October 2015	Unqualified with Emphasis of Matter	
Children & Youth Services Foundation	28 October 2015	Qualified	27 April 2016
Civil Aviation Authority	30 October 2015	Unqualified	27 April 2016
Electricity Regulatory Authority	13 October 2015	Unqualified	27 April 2016
Health Services Authority	7 September 2016	Qualified with Other Matter	22 February 2017
Information and Communications Technology Authority	31 October 2015	Unqualified	5 October 2016
Maritime Authority of the Cayman Islands	28 October 2015	Qualified with Other Matter	27 April 2016
National Drug Council	30 October 2015	Unqualified	
National Gallery of the Cayman Islands	26 October 2015	Qualified with Emphasis of Matter	
National Housing Development Trust	16 December 2016	Unqualified with Other Matter	
National Roads Authority	13 December 2016	Qualified	
Port Authority of the Cayman Islands	7 October 2016	Unqualified with Emphasis of Matter	22 February 2017

Entity	Date Audit Completed or Progress	Audit Opinion	Tabled in the Legislative Assembly
Public Service Pensions Board	29 October 2015	Unqualified with Emphasis of Matter	6 May 2016
Segregated Insurance Fund	13 April 2016	Unqualified with Emphasis of Matter and Other Matter	22 February 2017
Sister Islands Affordable Housing Development Corporation	26 January 2016	Unqualified	
Tourism Attraction Board	21 November 2017	Unqualified	
University College of the Cayman Islands	24 August 2016	Unqualified	
Water Authority of the Cayman Islands	29 October 2015	Unqualified	5 October 2016

## APPENDIX C - AUDIT OPINION DEFINITIONS

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The opinions that I can render on an entity's financial statements and their definitions are as follows:

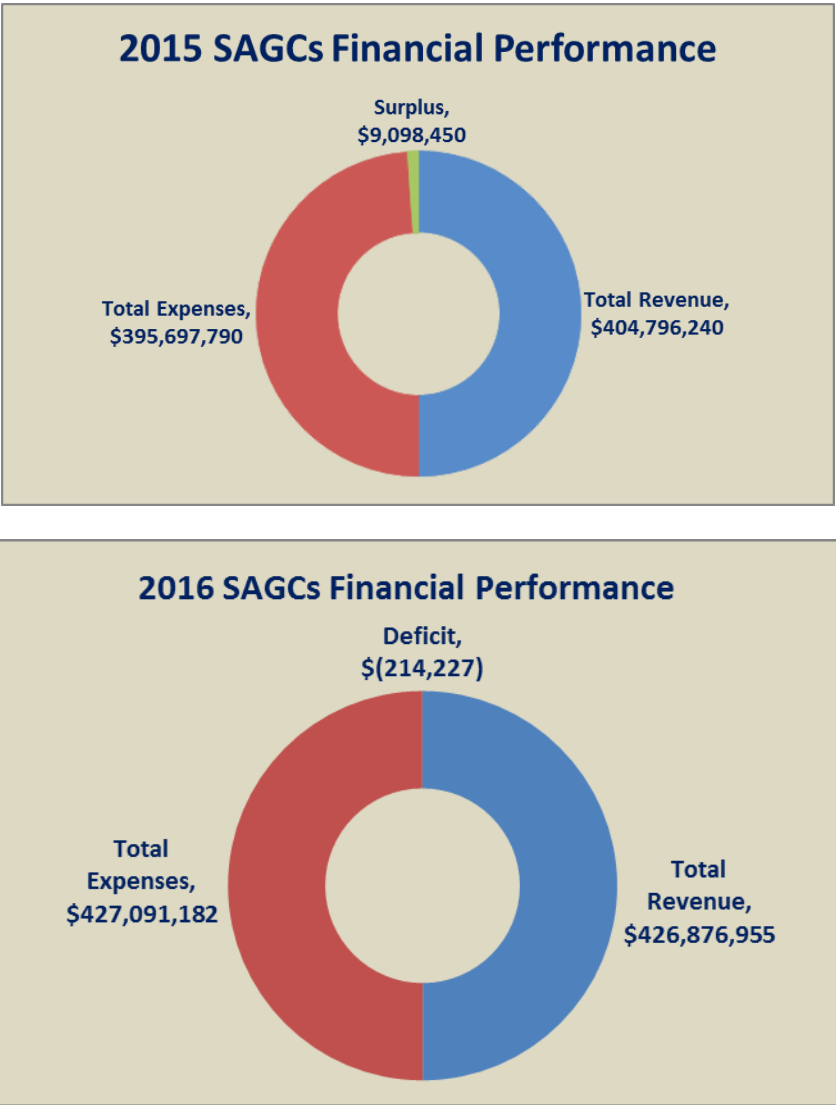
- **Unqualified** - The information contained within the financial statements can be relied upon;
- **Qualified** - A qualified opinion means that a portion of the financial statements cannot be relied upon, but that the rest of the statements can be relied upon by the reader;
- **Adverse** - There are such significant deficiencies with the information in the financial statements they should be considered unreliable for the user and the information contained therein is not trustworthy; and
- **Disclaimer** - I was not provided with sufficient information to conduct an audit.



# APPENDIX D – FINANCIAL PERFORMANCE OF STATUTORY AUTHORITIES & GOVERNMENT COMPANIES (SAGCS)

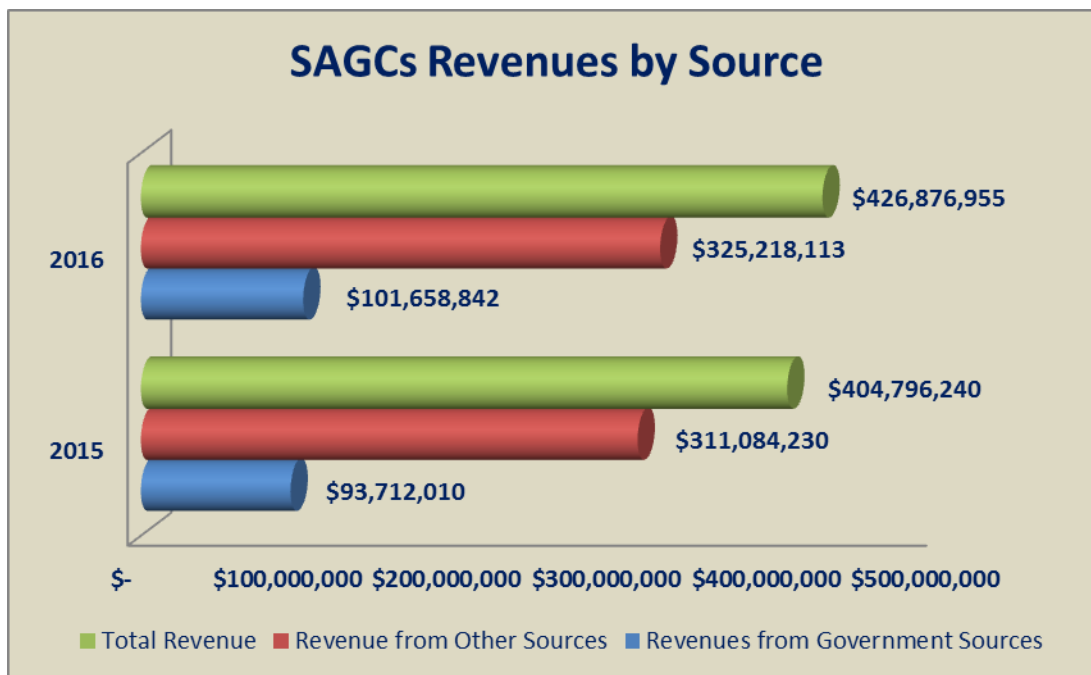
56. This section of the report provides an overall financial assessment of all SAGCs for which an audit was conducted for the 2014-15 and 2015-16 fiscal years. The analysis highlights some common trends over the two periods, which are consistent with previous years, and also identifies key financial performance and financial position elements which gives, at a global level, some insight into the operations of these entities.

Exhibit 1 Financial Performance



57. Exhibit 1 shows that the cumulative surplus of the SAGCs in 2014-15 was \$9.1 million which was an increase from the 2013-14 \$8.5 million surplus. In 2015-16 there was a significant decline in performance with a cumulative deficit of \$214 thousand being recorded.
58. This downturn in performance was due to cumulative expenses in 2015-16 increasing by \$31 million over 2014-15 whereas cumulative revenues only increased by \$22 million over the same period.
59. Excluding the Public Service Pension Board 52% of SAGCs reported a loss for the year ending 30 June 2015 and 52% reported a loss for 2016. This was an increase for both years when compared to 36% for the year ending 30 June 2014.
60. In 2015 a significant percentage of the cumulative deficit was attributable to Cayman Turtle Farm and the National Housing Development Trust who reported operating losses of \$6.3 million and \$1.7 million respectively. There was still a cumulative surplus reported for SAGCs due to significant surpluses from Cayman Airways Limited, Civil Aviation Authority and Water Authority for the same period. These three entities reported surpluses of \$3 million, \$3.5 million and \$4.1 million respectively (see full details of entities performance in Appendix F).
61. In 2016 the Cayman Turtle Farm and the National Housing Development Trust again reported significant operating losses of \$6.3 million and \$2.6 million respectively which contributed to the overall cumulative deficit. Despite surpluses from Cayman Airways Limited and Civil Aviation Authority of \$3.2 million and \$2.4 million, and a significantly improved performance by the University College of the Cayman Islands which reported a surplus of \$2.6 million compared to \$14 thousand in the prior year, the 2016 overall performance worsened in comparison to 2015 as the Water Authority reported a deficit of \$2.2 million and the National Roads Authority reported a deficit of \$4.9 million largely due to the recognition and re-measurement of post-retirement employee benefits cost.

## Exhibit 2 SAGCs Sources of revenues

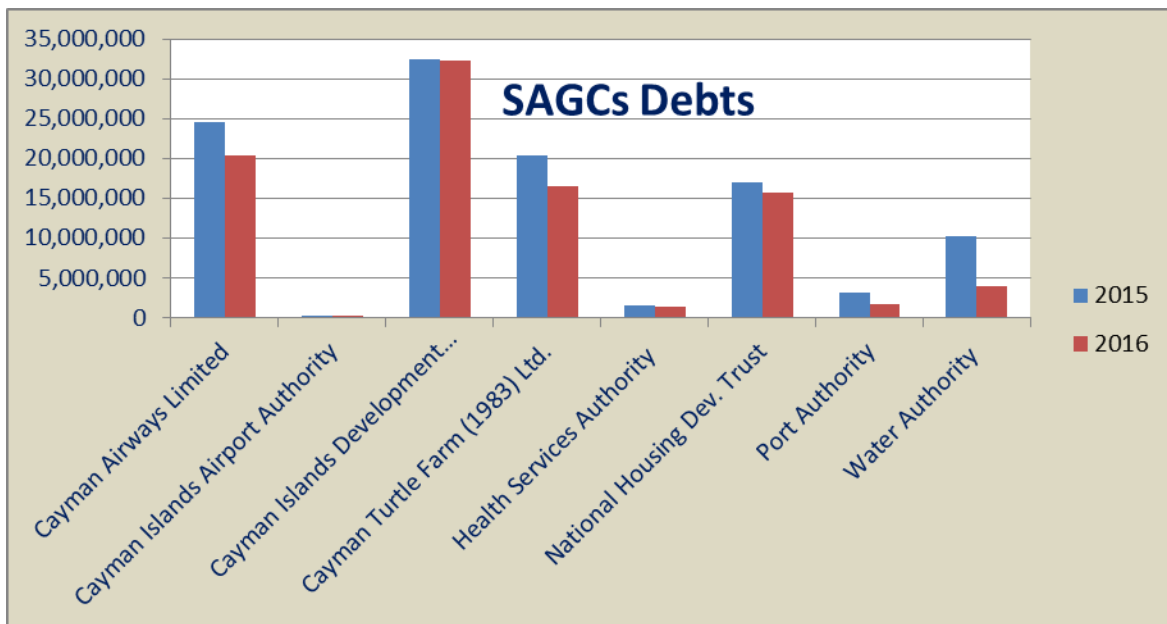


62. Consistent with prior years Government was a key source of revenue for SAGCs with more than 75% of the entities audited in 2015 and 2016 receiving revenues for providing outputs to Government. The level of revenue from Government compared to total revenues remained constant at approximately 23% for 2015 and 2016 which was a slight decrease compared to 2014 where Government provided 27% or \$79 million of the total revenues (\$297 million) for the same SAGCs.
63. Although the level of Government sourced revenue did not change significantly at an overall level and individual level for most entities, there was a significant decreased of revenue to the National Roads Authority (NRA) in 2015 and 2016 compared to 2014.
64. In 2015 and 2016 NRA received 14% and 26% of its revenues from providing output services to Government, which was a significant drop from the 96% of revenue sourced from Government in 2014. Commencing 2015, a large percentage of the services provided by the NRA were funded from the Roads Fund rather than from output revenues from Government.
65. In addition to revenue from providing outputs, SAGCs also received Government equity injections of \$21 million in 2015 and \$26 million in 2016, which were decreases compared to the \$31 million of equity injected in 2014.
66. The most significant equity injections which collectively represented 75% of all equity injections in 2015 and 64% in 2016 were made to the Cayman Turtle Farm and Cayman Airways as continued

financial support is needed to maintain operations. In 2016 the Health Services Authority also received a significant injection of \$7 million, \$6.4 million of which represented an insurance premium debt which was forgiven and converted to equity.

- 67. The total non-current portion of debts/loans of SAGCs increased in 2015 by \$8 million since 30 June 2014 to \$94 million. This movement attributed to the reduction in the debts/loans as they are paid down coupled with the reclassification of the CIDB’s borrowing of approximately \$27 million which was presented as a current liability as at 30 June 2014 as it was due in 2015. However, the entity received a new credit facility in 2015 which matures in 2025; therefore the debt was presented as non-current. The total non-current portion of debts/loans reduced to \$77 million in 2016.
- 68. The total amount of SAGCs debts/loans inclusive of current and non-current portions was \$110 million at 30 June 2015 and \$92 million as at 30 June 2016 and was held by eight entities as presented in the exhibit below.
- 69. Government provides the guarantee for the debt held by Cayman Airways, Cayman Islands Development Bank (CIDB), Cayman Turtle Farm and the National Housing Development Trust, which presents approximately 95% of the total debts/loans held by all SAGCs.

**Exhibit 3 SAGCs total debts/loans**



- 70. In the specific entity section below, I will discuss in greater detail some of the matters of these entities performances over the two fiscal periods. Generally it can be noted from details provided in Appendix F of this report that a number of the SAGCs continue to be under financial strain, and continue to face challenges in meeting their current obligations.

## SPECIFIC ENTITY RESULTS - SAGCS

71. This section of the report provides a brief analysis<sup>1</sup> of the reported results<sup>1</sup> for a number of the SAGCs, focusing on those entities that have or potentially have concerns regarding their continuing operation or where there are other matters that I feel should be reported in the public interest.

### CAYMAN AIRWAYS LTD. (CAL)

72. CAL reported surpluses in 2015 and 2016 which represented an improved performance compared to the three preceding years, in which deficits were reported.

73. In 2015 the amount of revenue generated (not inclusive of government funding) was a fractional increase of \$500k over 2014, but the entity incurred \$4.5 million less in expenditure leading to an operating loss of \$14.7 million (2014: \$19.7 million) for the year before government funding is factored. A surplus of \$3.1 million is reported when Government output funding of \$17.8 million is applied.

74. In 2016 the amount of revenue generated (not inclusive of government funding) increased nominally by \$541 thousand over 2015, but the level of expenditures incurred also decreased by \$108 thousand leading to an operating loss of \$14.1 million (2015: \$14.7 million) for the year before government funding is factored. A surplus of \$3.2 million (2015: \$3.1 million) is reported when Government output funding of \$17.3 million is applied. Government funding in 2016 decreased by \$500 thousand when compared to the amount recorded in the prior year.

75. Exhibit 4 provides details of CAL's financial performance and position for the last five years.

#### Exhibit 4A – CAL's financial performance 2011-12 to 2015-16

Statement of Financial Performance	Y/E 30 June 2012	Y/E 30 June 2013	Y/E 30 June 2014	Y/E 30 June 2015	Y/E 30 June 2016
Revenues	52,278,444	51,583,803	55,858,903	56,395,143	56,936,727
Govt. Output Funding	15,770,000	18,169,183	17,805,808	17,805,800	17,305,800
<b>Total Revenues</b>	<b>68,048,445</b>	<b>69,752,986</b>	<b>73,664,711</b>	<b>74,200,943</b>	<b>74,242,527</b>
Expenses	72,397,116	75,478,193	75,647,771	71,143,165	71,034,680
<b>(Loss)/Surplus</b>	<b>(4,348,672)</b>	<b>(5,725,207)</b>	<b>(1,983,060)</b>	<b>3,057,778</b>	<b>3,207,847</b>

<sup>1</sup> Revenues in these analyses include all operational incomes e.g. re-measurement gains, interest income etc.

#### Exhibit 4B– CAL’s financial position 2011-12 to 2015-16

Statement of Financial Position	As at 30 June 2012	As at 30 June 2013	As at 30 June 2014	As at 30 June 2015	As at 30 June 2016
Shareholder Deficit	(57,714,481)	(53,638,746)	(50,521,808)	(38,582,862)	(27,875,014)
Equity Injection	5,100,000	10,088,323	5,100,000	6,100,000	7,500,000
Accumulated Deficit	(120,176,239)	(126,188,827)	(128,171,887)	(125,114,109)	(121,906,261)
Current Assets	2,705,023	7,270,383	6,650,043	9,587,249	11,420,717
Current Liabilities	52,464,773	49,196,888	54,952,811	50,441,211	48,524,060
Current Ratio	0.05	0.15	0.12	0.19	0.24

76. As at 30 June 2016 as was the case in 2015, the shareholder deficit continues to improve, as it has increased by approximately \$30 million over the 5 year period 2012 to 2016. It should however be noted that over the same period there was also equity injections of \$33.9 million which were necessary for the continued operations of the entity.
77. CAL’s current ratio has shown marginal improvement over 2015 and 2016 as current liabilities has decreased slightly and there has been similar increase in current assets. Although the current ratio is moving in the right direction the entity is still a long way from financial stability as at 30 June 2016 current liabilities still exceeds total assets by \$11.8 million and exceeds liquid assets by \$37 million.
78. The improvements in the financial performance and position of CAL are encouraging, but it must be stressed that In the event that Government decides to discontinue financial support, CAL would unlikely be able to continue operating in the future and, therefore, be unable to meet its obligations as they fall due.

#### CAYMAN ISLANDS DEVELOPMENT BANK (CIDB)

79. Exhibit 5 provides details of the CIDB’s financial performance and position for the last five years.

#### Exhibit 5A – CIDB’s Financial Performance 2011-12 to 2015-16

Statement of Financial Performance	Year ending 30 June 2012	Year ending 30 June 2013	Year ending 30 June 2014	Year ending 30 June 2015	Year ending 30 June 2016
Operational Revenues	2,490,475	2,423,408	1,978,489	1,689,538	1,911,344
Govt. Output Funding	577,875	566,768	574,768	570,768	569,268
Operational Expenses	(2,236,843)	(1,865,913)	(1,038,481)	(1,353,403)	(574,042)
<b>Net revenue operations</b>	<b>831,507</b>	<b>1,124,263</b>	<b>1,514,776</b>	<b>906,903</b>	<b>1,906,570</b>
Admin Expenses	(1,598,387)	(1,611,097)	(1,465,422)	(1,576,187)	(1,502,057)
<b>Net Income/(Loss)</b>	<b>(766,880)</b>	<b>(486,834)</b>	<b>49,354</b>	<b>(669,284)</b>	<b>404,513</b>

## Exhibit 5B – CIDB’s Financial Position 2011-12 to 2015-16

Statement of Financial Position	As at 30 June 2012	As at 30 June 2013	As at 30 June 2014	As at 30 June 2015	As at 30 June 2016
Shareholder Equity	3,335,390	3,848,556	5,410,248	6,240,964	6,647,603
Bonds/Loans Payable	37,657,381	37,297,868	36,986,301	32,520,734	32,209,165
Loans/Advance to Customers (Net)	36,118,603	33,737,996	31,638,286	29,935,764	29,172,526
Provisions for Bad Debts	4,348,112	4,907,688	4,814,174	5,078,946	4,015,329
Loans written off	0	175,877	0	0	1,088,444

80. The bank reported a small net income balance in 2014 after a few years of significant losses. The main factor for this positive performance was the bank not increasing its provision for impairment losses. In 2015 an impairment loss of \$265k was recognized and this coupled with reduced interest income of approximately \$200k as a result of a greater amount of impaired loans, and an increase in administrative expenses due to commitment fees of \$69k on a new debt facility resulted in a net loss of \$669k.
81. In 2015 the bank received \$30.8 million under a new credit facility with a local financial institution to repay other credit facilities that were becoming due within the year. The new credit facility is for a term of 10 years at an interest rate of U.S 3-month LIBOR plus 1.125% and is secured by a Government guarantee.
82. The bank continues to have a high loan delinquency rate with \$20.8 million (59%) and \$17 million (52%) of the portfolio of customer loans considered impaired as at 30 June 2015 and 30 June 2016 respectively.
83. On its loan portfolio of \$35 million in 2015 and \$33.2 million in 2016 the bank made respective provisions of \$4 million and \$5.1 million for impaired loans (bad debts). As at 30 June 2015 CIDB also reported loans of \$6.1million that were delinquent (but not considered impaired i.e. less than 90 days in arrears), this was a reducing from the \$9.3 million recorded as delinquent in 2014. The amount of delinquent loans report at 30 June 2016 remained constant at \$6 million.
84. The bank repossessed collateral from customers who have defaulted and sells it as soon as practicable with the proceeds being used to extinguish the outstanding indebtedness. Repossessed collateral is not recognized on the bank’s statement of financial statements, but presented in the note disclosures. The bank held repossessed collateral of \$9.1 million as at 30 June 2015, and \$9.9 million as at 30 June 2016.
85. During 2016 mortgage and business loans account for 61% (2015: 65%) of the bank’s total loans portfolio. However there were no new loans granted during the year for these categories. Nearly all lending provided was for student loans or debt restructuring. The financial position and the high rate of delinquency has marginalized the CIDB’s ability to carry out its primary function to mobilize,

promote, facilitate and provide finance for the expansion and strengthening of economic development of the Cayman Islands. It is highly unlikely that the bank will be able to carry out this function, without continued financial support from the Government.

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CAYMAN ISLANDS MONETARY AUTHORITY (CIMA)

86. Exhibit 6 provides details of the bank’s financial performance for the last five years.

**Exhibit 6 – CIMA’s Financial Performance 2011-12 to 2015-16**

Statement of Financial Performance	Year ending 30 June 2012	Year ending 30 June 2013	Year ending 30 June 2014	Year ending 30 June 2015	Year ending 30 June 2016
Revenues	1,060,000	3,832,000	10,033,000	13,315,000	13,715,000
Govt. Output Payments	17,350,000	14,865,000	9,865,000	6,865,000	10,693,000
<b>Total Revenues</b>	<b>18,410,000</b>	<b>18,697,000</b>	<b>19,898,000</b>	<b>20,180,000</b>	<b>24,408,000</b>
Expenses	18,296,000	18,885,000	19,214,000	20,337,000	23,700,000
<b>Net Income/(Loss)</b>	<b>114,000</b>	<b>(188,000)</b>	<b>684,000</b>	<b>(157,000)</b>	<b>708,000</b>

87. Over the last five years CIMA’s revenues and expenses have consistently risen reflecting changes to business and new activities.

88. Up to the year ending 30 June 2012 around 90% of CIMA’s funding was provided through output payments from Government. In 2012-13, Transactional Fees which CIMA collected on behalf of Government was changed from being coercive revenue into entity revenue. Therefore rather than remitting these fees to Government, CIMA kept the revenue collected and their output funding was proportionately reduced. In 2013-14 the Directors Registration and Licensing Fees were introduced, which were classed as entity revenue and their output funding was again reduced proportionately.

89. In 2014-15 the level of revenue sourced from the Government had fallen to 34% and there was an increase in revenue from other sources, however in 2015-16 the level of Government revenues was increased to 44% of total revenues as amount of revenue generated from other sources did not reach the levels anticipated.

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CAYMAN TURTLE FARM LTD. (CTF)

90. The CTF revenues for 2015 were \$7.2 million, and increased notably to \$8.5 million in 2016. The increase in 2016 is mainly attributable to increase income from retail tours and retail merchandise sales which collectively increased by \$860k when compared to 2015. After taking account of operating and administrative expenses the Turtle Farm still however generated net losses for the respective years of \$6.3 million and \$6.3 million.

91. The financial position as at 30 June 2015 and 2016 indicates that the Cayman Turtle Farm is still dependent on Government support to enable it to continue operating in the future. Over the five



year period 2012 to 2016, its financial position has improved as it has continued to decrease its total liabilities and its ratio of current assets to current liabilities continues to move in the right direction. The net asset position of the CTF has maintained a net asset position as at 30 June 2015 and 2016, reporting \$10.6 million and \$13.4 million for the respective years. However without the capital injections from Government the net assets would be \$1.1 million and \$4.3 million.

92. Non-current liabilities as at 30 June 2016 were \$12.4 million (2015 - \$15.4 million), down from \$19.3 million as at 30 June 2014, the majority of which are guaranteed senior notes and long term bank loans that are guaranteed by Government. Non-current assets are valued at \$27 million as at 30 June 2016. Exhibit 7 provides details of CTF's financial performance and position for the last five years.

**Exhibit 7 –CTF's Financial Performance and Position 2011-12 to 2015-16**

Statement of Financial Performance	Year ending 30 June 2012	Year ending 30 June 2013	Year ending 30 June 2014	Year ending 30 June 2015	Year ending 30 June 2016
Revenues	5,610,872	6,376,046	6,040,308	7,162,827	8,534,982
Expenses	13,745,366	13,860,298	13,556,614	13,503,226	14,828,316
<b>(Loss)</b>	<b>(8,134,494)</b>	<b>(7,484,252)</b>	<b>(7,516,306)</b>	<b>(6,340,399)</b>	<b>(6,293,334)</b>
Statement of Financial Position	As at 30 June 2012	As at 30 June 2013	As at 30 June 2014	As at 30 June 2015	As at 30 June 2016
Shareholder (Deficit)/Equity	(3,764,588)	(570,069)	7,477,787	10,643,737	13,353,152
Equity Injection	9,669,418	10,678,771	15,564,162	9,506,349	9,002,749
Current Assets	3,502,326	4,181,121	3,156,112	3,737,690	5,150,487
Current Liabilities	14,522,684	14,206,808	7,498,009	6,811,301	6,321,386
Current Ratio	0.25	0.29	0.42	0.55	0.81

93. In the event that Government decides to discontinue financial support, the Turtle Centre would unlikely be able to continue operating in the future, and it would be unable to realize its assets and discharge its liabilities in the normal course of business.

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## CIVIL AVIATION AUTHORITY (CAA)

94. Exhibit 8 provides details of the CAA's financial performance for the last five years.

### Exhibit 8 – CAA's Financial Performance 2011-12 to 2015-16

Statement of Financial Performance	Year ending 30 June 2012	Year ending 30 June 2013	Year ending 30 June 2014	Year ending 30 June 2015	Year ending 30 June 2016
Revenues	5,606,415	6,286,524	6,924,267	7,340,149	7,452,098
Govt. Output Payments	0	0	0	0	0
<b>Total Revenues</b>	<b>5,606,415</b>	<b>6,286,524</b>	<b>6,924,267</b>	<b>7,340,149</b>	<b>7,452,098</b>
Expenses	3,573,087	4,074,194	4,424,175	3,791,638	5,078,173
<b>Net Income</b>	<b>2,033,328</b>	<b>2,212,330</b>	<b>2,500,092</b>	<b>3,548,511</b>	<b>2,373,925</b>

95. The CAA maintained a strong financial performance during 2015 and 2016. Its revenues in 2015 increased by \$416k over 2014 whilst expenses over the same period decreased by \$633k, resulting in an increased net income of approximately \$1 million. In 2016 although total revenues remained relatively constant compared to 2015, there was a decrease in the net income due to other comprehensive losses of \$838k resulting from the re-measurement of the CAA's defined benefit obligations for pension and post-retirement healthcare and increased operating expenses for salaries/performance incentive expenses of \$294k.

96. The main driver in the strong revenue performance is from aircraft safety regulation and certification fees generated from aircraft on the Cayman Islands Aircraft Register, which the CAA has successfully continued to grow.

97. As a result of its positive financial position CAA was been able to pay dividends to the Government of \$2.2 million and \$2 million for 2015 and 2016 respectively.

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## CULTURAL AND ARTS COMPANIES

98. The three cultural and arts organizations, the National Gallery, the National Museum and the Cultural Foundation are all strongly dependent on Government funding to continue operating in the future. In 2015 all three entities reported operating losses with the National Gallery and the Cultural Foundation losses being in excess of \$100k each. Although the National Museum reported a less significant loss of \$9k, it required 82% of its revenue from Government in order to cover its operating expenses. The Cultural Foundation and the National Gallery received 70% and 44% of their revenue from Government over the same period. In 2016 the National Museum reported a modest surplus of \$26k due mainly to increased revenues from fundraising and donations. The Cultural Foundation losses remained on par with 2015 at \$113k whereas the National Gallery reported losses increased significantly to \$262k; an increase of \$145k over the 2015 losses. The level of Government funding remained relatively consistent for all three organizations.

**Exhibit 9 – HSA Financial Performance and Position 2011-12 to 2015-16**

<b>Statement of Financial Performance</b>	<b>Year ending 30 June 2012</b>	<b>Year ending 30 June 2013</b>	<b>Year ending 30 June 2014</b>	<b>Year ending 30 June 2015</b>	<b>Year ending 30 June 2016</b>
Patient Services Revenue	60,364,427	63,608,641	63,931,779	75,958,323	75,486,901
Govt Output Funding: Patient Services	10,811,929	16,211,928	17,062,234	12,579,525	13,998,225
Govt Output Funding: Programmes	13,994,116	13,476,999	14,465,166	13,327,533	13,077,623
Other Income	526,824	617,832	891,773	1,122,324	2,673,187
<b>Total Revenues</b>	<b>85,697,298</b>	<b>93,915,400</b>	<b>96,350,952</b>	<b>102,987,705</b>	<b>105,235,936</b>
Expenses	90,307,001	99,538,253	94,486,473	104,847,671	106,920,342
<b>Net income/(Loss)</b>	<b>(4,609,703)</b>	<b>(5,622,853)</b>	<b>1,864,479</b>	<b>(1,859,966)</b>	<b>(1,684,406)</b>
<b>Statement of Financial Position</b>	<b>As at 30 June 2012</b>	<b>As at 30 June 2013</b>	<b>As at 30 June 2014</b>	<b>As at 30 June 2015</b>	<b>As at 30 June 2016</b>
Allowance for Bad Debts	29,890,405	45,533,298	57,089,591	78,129,937	94,468,399
Bad Debt Write offs	13,663,398	4,010,851	3,608,313	2,302,332	3,513,807
Equity Injection	0	1,561,470	849,567	847,500	7,037,715

99. The HSA generated total revenues of \$103 million during 2015, and incurred expenses of \$104.8 million leading to a total loss of \$1.9 million. In 2016 the levels of revenues increased slightly and there was also a slight reduction in expenses which resulted in a small income of \$68k before factoring in other comprehensive losses of \$1.75 million. The comprehensive losses resulted from an actuarial revaluation which relates to the re-measurement of the defined benefit pension. After the comprehensive loss is applied HSA reported a loss for 2016 of \$1.68 million. In 2015 the re-measurement of the defined benefit pension plan resulted in income of \$1.2 million, had this not been applied, the loss for 2015 would have been \$3.1 million.
100. The financial position of the HSA continues to improve as it had a current ratio of 1.67 in 2015 and 2.12 in 2016, demonstrating that it has the ability to meet its current obligations without undue financial strains. The Authority also reported a reasonably healthy net worth of \$77 million in 2015 and \$94 million in 2016. The increase in net worth in 2016 compared to 2015 of \$17 million is attributable to a revaluation surplus of \$11 million from the revaluing of the fixed assets, and an equity injection of \$7 million. As noted earlier in this report, a large portion of this injection related to the forgiveness of a debt for insurance premium and did not consist of an actual inflow of resource to the HSA but was a debt to equity reclassification.
101. It is worth noting that although the HSA had a generally positive financial position for 2015 and 2016, there is concern regarding the level of bad debts being reported by the entity. As at 30 June 2016 the gross accounts receivables were \$122 million, however the HSA made an allowance for bad debts of \$94 million reporting net account receivables of \$28 million. To put this in context, the

amount of account receivables the HSA deems to be uncollectible (\$94 million) is greater than the revenue the HSA earned for one year from patient service fees (2016: \$89 million).

102. During the 24-month period 1 July 2014 to 30 June 2016 the bad debt allowance increased by \$38 million and \$6 million of the bad debt was written off the books over the same period.

103. Ultimately the financial performance and position of the HSA reflect the rising cost of providing healthcare and the challenges in collecting its revenues.

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**MARITIME AUTHORITY OF THE CAYMAN ISLANDS (MACI)**

104. MACI generated total revenues of \$8.8 million during 2015, and incurred expenses of \$8.4 million leading to a surplus of \$450k. In 2016 the entity increased revenues and expenses and reported a net income of \$251k before factoring in other comprehensive loss of \$652k which relates to the re-measurement of the defined pension liability. After the comprehensive loss is applied MACI reported a loss for 2016 of \$401k. In 2015 the re-measurement of the defined pension plan resulted in comprehensive income of \$174k, had this not been applied, the surplus for 2015 would have been \$275k.

**Exhibit 10 – MACI Financial Performance 2011-12 to 2015-16**

<b>Statement of Financial Performance</b>	<b>Year ending 30 June 2012</b>	<b>Year ending 30 June 2013</b>	<b>Year ending 30 June 2014</b>	<b>Year ending 30 June 2015</b>	<b>Year ending 30 June 2016</b>
Revenues	7,680,515	8,465,649	9,173,603	8,406,825	8,911,240
Govt Output Funding	1,093,942	394,028	432,270	429,716	427,945
<b>Total Revenues</b>	<b>8,774,457</b>	<b>8,859,677</b>	<b>9,605,873</b>	<b>8,836,541</b>	<b>9,339,185</b>
Expenses	8,930,909	9,237,394	8,823,202	8,386,801	9,740,362
<b>Net Income/(Loss)</b>	<b>(156,452)</b>	<b>(377,717)</b>	<b>782,671</b>	<b>449,740</b>	<b>(401,177)</b>

105. MACI continues to have a healthy financial position with current ratios of 5.5 and 6 for the respective year end 20 June 2015 and 2016. Indicating that financial obligations can be met without any challenges.

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**NATIONAL HOUSING DEVELOPMENT TRUST (NHDT)**

106. Over the two years 2015 and 2016 the NHDT has recorded significant losses despite increased revenues in both years. This is due to the high operating cost of the Trust and the moderate margins within which it operates. This is demonstrated by the slender gross profit of \$548k in 2015 which represents just 24% of operating expenses and gross loss of \$369k in 2016.

107. The Trust has had increase revenue from the sale of houses in both 2015 and 2016 and had received marginally less revenue through output payments from Government over the same

periods. However it continues to sell houses at a loss, with house sales of \$892k in 2015 and \$2.7 million in 2016 with a cost of houses sold of \$1.3 million and \$3.9 million respectively.

**Exhibit 11 – NHDT’s Financial Performance and Position 2011-12 to 2015-16**

Statement of Financial Performance	Year ending 30 June 2012	Year ending 30 June 2013	Year ending 30 June 2014	Year ending 30 June 2015	Year ending 30 June 2016
Revenues	619,000	704,000	467,000	1,270,000	3,004,000
Govt Output Funding	658,000	642,000	645,000	580,000	581,000
<b>Total Revenues</b>	<b>1,277,000</b>	<b>1,346,000</b>	<b>1,112,000</b>	<b>1,850,000</b>	<b>3,585,000</b>
Expenses	2,671,000	2,904,000	2,641,000	3,553,000	6,157,000
<b>(Loss)</b>	<b>(1,394,000)</b>	<b>(1,558,000)</b>	<b>(1,529,000)</b>	<b>(1,703,000)</b>	<b>(2,572,000)</b>
Statement of Financial Position	As at 30 June 2012	As at 30 June 2013	As at 30 June 2014	As at 30 June 2015	As at 30 June 2016
Shareholder Deficit/Equity	(885,000)	1,105,000	3,940,000	4,645,000	4,507,000
Loans Payable	20,510,000	19,362,000	18,185,000	16,979,000	15,743,000
Equity Injection	5,067,000	2,145,000	2,992,000	2,439,000	2,436,000

108. As at 30 June 2016 the Trust has sufficient resources to meet its current liabilities, but it is still dependent on Government support to enable it to continue operating in the future. Aside from the Government output funding the Trust receives each year, it has received just over \$15 million in equity injections from the Government over the last five years, which has enabled it to report a positive net worth for both 2015 and 2016.

109. NHDT will continue to require regular equity injections from Government to meet its obligations and to continue operating in the future. As at 30 June 2016 the balance of loans payable of \$15.7 million is guaranteed by the Government.

110. On the basis of the current business model the Trust will only remain financially viable in the foreseeable future with further significant financial support from Government.

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**PORT AUTHORITY OF THE CAYMAN ISLANDS (PACI)**

111. The Port Authority of the Cayman Islands (PACI) has shown steady improvement in its financial position over the 5 year period 30 June 2012 to 2016 by consistently reporting increased current assets while reducing current liabilities. This is reflective in positive current ratios in 2015 and 2016 of 1.14 and 2.19 respectively, demonstrating that the PACI is able to meet its financial obligations.

112. The financial performance over the same period has also shown improvement as the PACI operating revenues in 2016 increased by \$5 million when compared to 2012, representing a growth in revenue generation of 28%. The total loss reported for 2016 takes into account \$3.4 million which relates to the re-measurements of the defined benefit obligation for port retirement health care cost, and a gain on the revaluation of the Port’s equipment of \$1.4 million.

## Exhibit 12 – Port Authority’s Financial Performance and Position 2011-12 to 2015-16

Statement of Financial Performance	Year ending 30 June 2012	Year ending 30 June 2013	Year ending 30 June 2014	Year ending 30 June 2015	Year ending 30 June 2016
Revenues	18,950,756	19,493,365	23,228,402	20,530,227	24,299,887
Expenses	18,401,758	19,115,365	22,902,951	20,180,531	25,631,898
<b>Total Income/(Loss)</b>	<b>548,998</b>	<b>378,000</b>	<b>325,451</b>	<b>349,696</b>	<b>(1,332,011)</b>
Statement of Financial Position	As at 30 June 2012	As at 30 June 2013	As at 30 June 2014	As at 30 June 2015	As at 30 June 2016
Current Assets	3,923,154	4,078,073	4,200,367	6,245,243	9,773,076
Current Liabilities	7,424,147	6,733,224	5,080,100	5,459,531	4,454,216
Current Ratio	0.53	0.61	0.83	1.14	2.19
Long Term Debt	6,392,295	4,838,453	3,330,159	1,782,525	322,538

113. In 2015 The Authority commissioned an actuary to determine its defined benefit obligation for employment healthcare. The actuarial assessment concluded that the Port Authority has a present value net defined benefit obligation of \$24.6 million at the end of the financial year 30 June 2015. There had not been any recognition of this liability or related annual expense in the financial statements of the Port Authority before, except that the premiums paid on behalf of the retirees were included as medical costs and reported as a part of staff costs in the Statement of Comprehensive Income. This omission necessitated the restatement of the 2014 and 2013 statement of financial position to correctly present this obligation.
114. The Port noted in its 2015 financial statement that there has not been any money set aside to fund this benefit. Consequently, the entire \$30.2 million (in 2016) is unfunded, and measures will need to be put in place to address this unfunded status in the coming years.

115. Exhibit 13 provides details of the performance of the Pensions Board and pension funds.

**Exhibit 13 – PSPB Financial Performance and Position 2011-12 to 2015-16**

Statement of Accumulated Plan Benefits	Year ending 30 June 2012	Year ending 30 June 2013	Year ending 30 June 2014	Year ending 30 June 2015	Year ending 30 June 2016
Present value of Accumulated Plan Benefits – Actuarial Valuation	494,849,000	494,849,000	624,239,000	624,239,000	624,239,000
Net Assets Available	357,756,000	413,338,000	483,831,000	511,357,000	552,290,000
<b>Fund Deficit</b>	<b>(137,093,000)</b>	<b>(81,511,000)</b>	<b>(140,408,000)</b>	<b>(112,882,000)</b>	<b>(71,949,000)</b>
Statement of Changes to Net Assets Available for Benefits	As at 30 June 2012	As at 30 June 2013	As at 30 June 2014	As at 30 June 2015	As at 30 June 2016
Contributions	29,631,000	42,227,000	37,198,000	37,769,000	58,782,000
Benefits Paid to Participants	29,971,000	25,516,000	29,923,000	33,472,000	35,760,000
<b>Net Pensions</b>	<b>(340,000)</b>	<b>16,711,000</b>	<b>7,275,000</b>	<b>4,297,000</b>	<b>23,022,000</b>
Investment Income	21,270,000	44,802,000	67,031,000	29,702,000	26,727,000
Investment Expenses	2,744,000	3,943,000	4,335,000	3,883,000	4,383,000
<b>Net Investment Income</b>	<b>18,526,000</b>	<b>40,859,000</b>	<b>62,696,000</b>	<b>25,819,000</b>	<b>22,344,000</b>
Operating Income	128,000	135,000	149,000	161,000	159,000
Operating Expenses	3,050,000	3,561,000	3,624,000	3,675,000	3,787,000
<b>Net Operating Loss</b>	<b>(2,922,000)</b>	<b>(3,426,000)</b>	<b>(3,475,000)</b>	<b>(3,514,000)</b>	<b>(3,628,000)</b>
<b>NET INCREASE IN ASSETS</b>	<b>15,263,000</b>	<b>54,144,000</b>	<b>66,496,000</b>	<b>26,799,000</b>	<b>41,692,000</b>

116. Exhibit 13 shows that the fund deficit was on a decreasing path in 2012 and 2013, but made a significant increase in 2014 despite the notable increase in net assets available. This change in trajectory is attributable to the change in the present value of the accumulated plan benefits, which was based on the 2011 actuarial valuation report for 2012 and 2013 as it was the most recent approved report as at those fiscal year ends; whereas, the subsequent three years are reflective of the 2014 actuarial valuation report.

117. The 2014 actuarial valuation reports were finalized by the Pension Board in April 2015, and submitted to the Financial Secretary. In June 2016 the reports were approved by Cabinet and tabled in the Legislative Assembly. The 2016 fund deficit calculation was computed using the details of the 2014 approved actuarial report, and the 2014 and 2015 deficits were recomputed accordingly.

118. From 2015 the deficit resumed its downward trend, largely due to the positive performance of the plan’s investments as well as an additional contribution of \$11 million which was budgeted and paid in by Government to service the defined benefit past service liability cost. In 2016, the decrease in the deficit was more substantial due to a contribution by the Government of \$18 million in addition to the \$11 million that was budgeted to service the defined benefit past service liability.

**Exhibit 14 – Actuarial Valuation of Pension Plans**

<b>Actuarial Valuation</b>	<b>Public Service Pension Plan \$000’s</b>	<b>Parliamentarian Pension Plan \$000’s</b>	<b>Judicial Pension Plan \$000’s</b>
Value of pension fund allocated assets	433,704	8,457	5,050
Past service liability	(599,993)	(20,354)	(3,892)
<b>(Deficiency)/Fund Surplus</b>	<b>(166,289)</b>	<b>(11,897)</b>	<b>1,158</b>
Required Contribution Rate	44.23%	119.15%	10.76%

119. Exhibit 14 details the deficiency of the Public Service and Parliamentarian Pension Plans and the Surplus of the Judicial Pension Plan as determined by the actuary in the 2014 valuation report.

120. The Actuary has determined that for the Public Service Pensions Plan a continuation of the current level of contribution to the Defined Benefit Plan (close to 12% of salaries) is projected to result in the depletion of the Defined benefit allocated fund by the year 2024.

121. The Actuary has also determined that the Parliamentarian Plan is severely underfunded, and that assets allocated to this plan only covers 41% of the past service obligations.

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**UNIVERSITY COLLEGE OF THE CAYMAN ISLANDS (UCCI)**

122. The UCCI reported a modest net income in 2015 of \$14k and a much more substantial net income in 2016 of \$2.6 million. The significant increase in income for 2016 was mainly attributable to income from the revaluation of land and building of \$2.3 million and from the re-measurement of defined benefit pension of \$73k, when these other income items are excluded the net surplus for 2016 was \$202k, which is still a positive improvement compared to the previous four years.



**Exhibit 15 – UCCI’s Financial Performance and Position 2011-12 to 2015-16**

<b>Statement of Financial Performance</b>	<b>Year ending 30 June 2012</b>	<b>Year ending 30 June 2013</b>	<b>Year ending 30 June 2014</b>	<b>Year ending 30 June 2015</b>	<b>Year ending 30 June 2016</b>
Revenues	3,159,555	2,771,663	2,947,118	3,256,964	5,728,890
Govt Output payments	4,231,440	3,905,976	4,248,542	4,073,205	4,077,658
<b>Total Revenues</b>	<b>7,390,995</b>	<b>6,677,639</b>	<b>7,195,660</b>	<b>7,330,169</b>	<b>9,806,548</b>
Expenses	6,945,896	7,088,432	7,313,125	7,316,388	7,182,921
<b>Net Income/(Loss)</b>	<b>445,099</b>	<b>(410,793)</b>	<b>(117,465)</b>	<b>13,781</b>	<b>2,623,627</b>
<b>Statement of Financial Position</b>	<b>As at 30 June 2012</b>	<b>As at 30 June 2013</b>	<b>As at 30 June 2014</b>	<b>As at 30 June 2015</b>	<b>As at 30 June 2016</b>
Shareholder Equity	3,395,016	3,258,627	5,567,856	5,582,013	8,205,984
Accumulated Deficit	(1,155,608)	(1,533,112)	(1,650,577)	(1,636,796)	(1,361,926)
Current Assets	1,333,547	1,417,769	1,427,583	1,942,769	2,353,312
Current Liabilities	1,436,611	1,465,915	792,778	1,984,471	1,893,212
Current Ratio	0.93	0.97	1.8	0.98	1.24

123. UCCI continues to be dependent on an annual subsidy from Government in order to meet its operating cost. For the years 2015 and 2016 the amount received of \$4 million a year was marginally lower than what was received in 2014, and represented 56% and 42% of total revenues for the respective years. The lower percentage in 2016 is due to the increase in total income from revaluations as discussed in the preceding paragraph, and is not indicative of a significant increase in third party revenues from tuition fees.
124. Despite the overall improved position for the two years, the UCCI will remain reliant on government to be financially sustainable in the foreseeable future, unless it’s able to generate higher levels of revenues through greater enrollments and increased tuition fees. The latter is challenging as the college is restricted by the Government from unilaterally changing tuition fees.

# APPENDIX E – FINANCIAL PERFORMANCE OF MINISTRIES, PORTFOLIOS & OFFICES

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125. This section of the report provides a brief financial assessment of all Ministries, Portfolios and Offices for which an audit was conducted for the 2014-15 and 2015-16 fiscal years with budgetary information included for those audits that are still ongoing to facilitate comparative analysis. I have also highlights some of the challenges that continue to be faced in analyzing the performance of these entities.

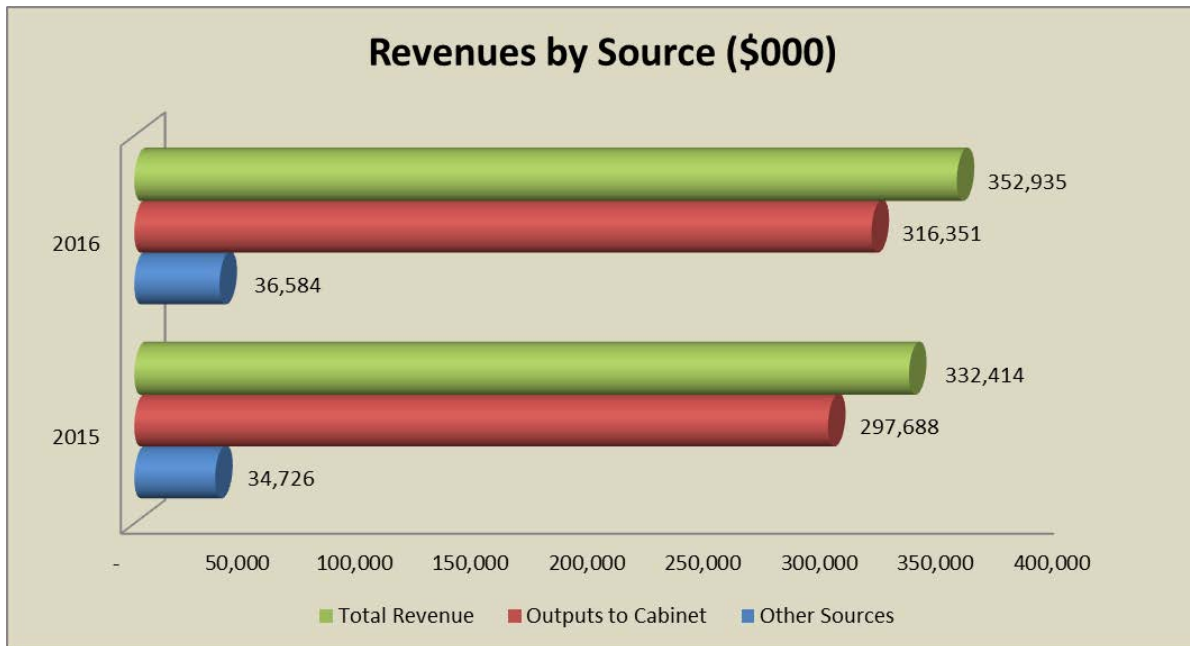
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## SUMMARY FINANCIAL ASSESSMENT - REVENUES

126. Ministries and Portfolios generate their revenue by delivering goods and services on behalf of the Cabinet and collecting revenue from the resulting outputs, as well as from charging members of the public directly for goods and services not deemed as coercive in nature (i.e. fees, duties etc.) collected on the behalf of the Treasury and not retained by the respective collecting entity.

127. The revenue generated from Cabinet is in essence the recovery of the cost incurred by entities to provide the outputs on the behalf of the Cabinet, and that is authorized through the appropriation process. Later in this section I will touch on some of the challenges inherent in this process.

**Exhibit 16 – Ministries, Portfolios and Offices Revenues<sup>2</sup>**



128. In 2015-16 the amount of revenue generated by Ministries, Portfolios and Offices increased by just over \$20 million (6%), with the significant portion of this related to an increase in the revenue sourced from the Cabinet for outputs provided. However, the proportion of revenue remained consistent with 90% being sourced from Cabinet in both years.

129. The largest component of the revenue that is generated from the Cabinet is the recovery of payroll costs for Civil Servants who are employed by the respective entities to provide outputs. This is consistent with most governments, which are labor driven as a considerable portion of the programs and activities of the Government are service oriented e.g. part of the Ministry of Home Affairs key mission is the delivery of services connected with criminal justices, public safety, immigration control, policing and firefighting. This Ministry has approximately 1,000 employees and its revenues from Cabinet in 2015-16 (\$85 million) represents 27% of all revenues received from Cabinet by Ministries, Portfolios and Offices.

130. Similarly, the Ministry of Education whose core objective is the provision of primary, secondary, further education, special education and alternative education services in public schools, employees approximately 875 employees and its revenue from Cabinet in 2015-16 (\$75 million<sup>3</sup>) represents 24% of all revenues sources from Cabinet by Ministries, Portfolios and Offices. See details of all entities percentage of total Cabinet revenue below.

<sup>2</sup> Unaudited numbers used for entities with audits still ongoing

<sup>3</sup> Unaudited number from draft financial statements

### Exhibit 17 – 2016 Entity percentage of Cabinet Revenue

Entity	Revenues from Cabinet (\$'000)	Revenues from Cabinet %
Cabinet Office <sup>4</sup>	6,165	2%
Director of Public Prosecution	3,031	1%
Information Commissioners Office	572	0.18%
Judicial Administration	5,946	2%
Ministry of Community Affairs, Youth and Sports	19,369	6%
Ministry of District Administration, Tourism and Transport	29,705	9%
Ministry of Education, Employment and Gender Affairs <sup>4</sup>	75,017	24%
Ministry of Finance and Economic Development (Public Finance)	18,819	6%
Ministry of Fin. Services, Commerce and Environment (Financial Services)	9,715	3%
Ministry of Home Affairs, Health and Culture – Health and Culture <sup>4</sup>	16,077	5%
Ministry of Home Affairs – Home Affairs	85,281	27%
Ministry of Planning, Lands, Agriculture, Housing and Infrastructure	31,339	10%
Office of the Complaints Commissioner	783	0.25%
Portfolio of the Civil Service	8,116	3%
Portfolio of Legal Affairs	6,416	2%
<b>Total</b>	<b>316,351</b>	<b>100%</b>

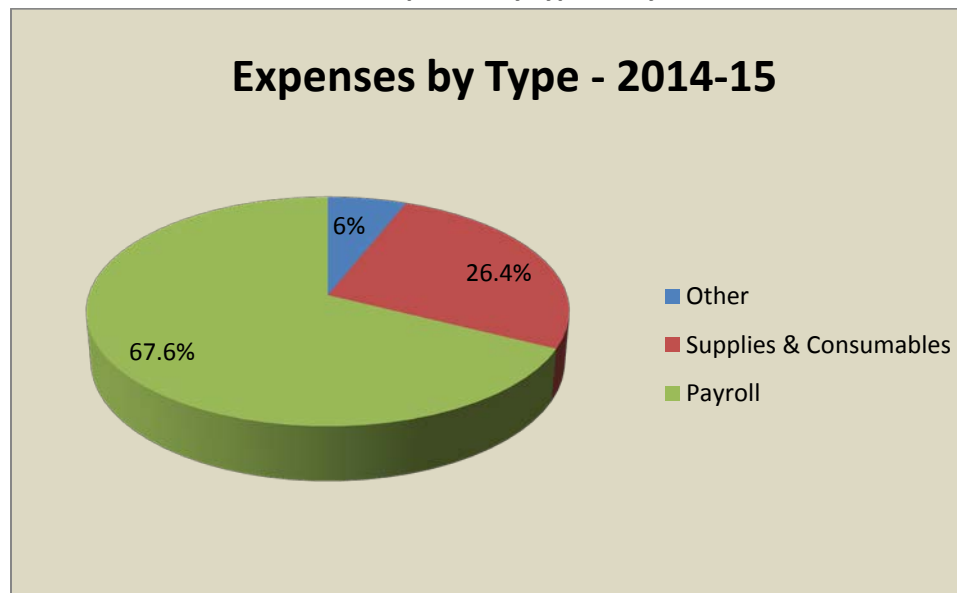
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<sup>4</sup> Unaudited numbers taken from draft financial statements

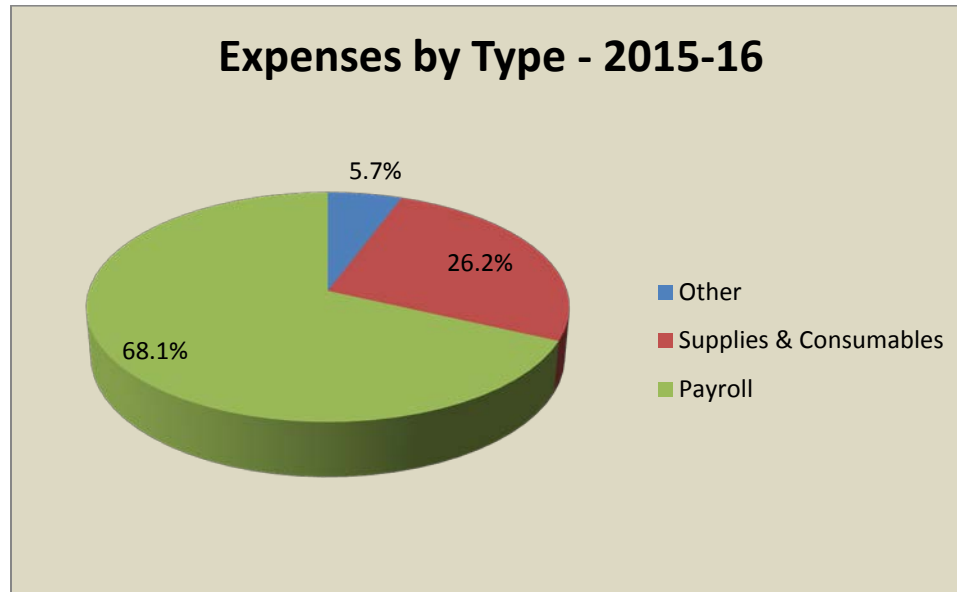
## SUMMARY FINANCIAL ASSESSMENT - EXPENSES

131. Total expenses for Ministries, Portfolios and Offices increased in 2015-16 to \$339 million compared to \$323 million in 2014-15, representing a 6% change with \$12 million of the increase related to payroll cost.
132. As discussed earlier, Ministries, Portfolios and Offices are service oriented and as a result payroll cost dominates the total expenses incurred by all entities in 2014-15 and 2015-16, representing around 68% of total expenses for both years.
133. The ability to independently assess the effectiveness of the resources used is minimized significantly as there is currently no comprehensive performance management reporting framework which demonstrates if the intended outputs that were budgeted for were achieved in an effective and efficient manner.
134. Alternatively, the financial reporting is done only on an input cost basis and primarily only assess whether cost allocations have been exceeded or met, with no explicit details on whether the resources were efficiently used as authorized for the specific objective.

**Exhibit 18 – Expenses by type analysis 2015**



**Exhibit 18 – Expenses by type analysis 2016**



135. In 2014-15, the one entity that exceeded the total amount allocated in their budget for expenses was Judicial Administration, whose total expenses exceeded the budget by \$111k, which represented 2% of the amount approved. The reasons for this variance against the budget was cited as being due to substantial increase in the use of interpreters for court cases, consultancy cost to cover HR strategic development, secretarial support for Judges, increased in external security services to replace the support previously provided by the RCIPS and increased cleaning cost for new court facility.

136. In 2015-16 of the entities for whom an audit was completed as at the date of this report, the Ministry of Home Affairs was the only entity that recorded an amount in excess of the approved budget for expenses. The net amount by which the budget was exceeded was \$540k which represents less than 1% of total expenses and deemed as relatively immaterial. The main contributing factor to this excess is professional fees for the Ritch Connolly report on the Annual Permanent Residency points system and software licensing penalties from Oracle Corporation.

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**SUMMARY FINANCIAL ASSESSMENT – CHALLENGES**

137. As discussed in previous Auditor General Reports, and I believe it merits mention once again, there were some factors which complicates the exercise of analyzing the performance of Ministries, Portfolios and Offices. The key factor which still remains is the artificial separation of transactions into entity and executive, with only transactions that are classified as “entity” being recorded in the Ministries, Portfolios and Offices financial statements.

138. The second factor was the low number of annual reports being prepared for 2014-15 as most entities at that time only produced financial statements and did not go the additional step as required by the *Public Management and Finance Law* to produce the annual report. I am pleased to note that for the 2016 fiscal period this was not the case as almost all Ministries, Portfolios and Offices produced annual reports which included informative content such as a financial statement discussion and analysis, in depth statistical and narratives details on how the respective entity has used public funds in achieving its various outcomes.
139. There has also been an improvement in the time within which the audited financial statements and related annual reports have been tabled thereby making them accessible to the public which is a fundamental element in the financial reporting framework.
140. I will not going into details on the contents of the annual reports, but I encourage citizens to review these reports as they give useful insight as to how your resources have been managed by the Government.
141. The third challenge that I'll focus on is the extent of reporting that is done to demonstrate how each entity has used public funds that were authorized through the Appropriation Law, as the Government's budget is prepared on an output basis but the financial reporting is done on an input basis.

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#### ENTITY VERSES EXECUTIVE - REVENUES

142. Due to the separation of transactions between the classification of entity and executive, resulting in Ministries, Portfolios and Offices essentially managing two sets of accounts, the financial statements prepared on an individual entity level does not provide the full scope of all the transactions and as a result the revenues, expenses, assets and liabilities that have been managed by the respective entity during the fiscal period, as the financial statements only present the entity transactions, with the executive being captured only at the EPS level.
143. Exhibits 19 and 20 below presents revenue transactions that are presented at the EPS level only by type and also the same revenues categorized by the entity that are charged with managing them. It is important to note that these executive transactions were reported in the 2015-16 EPS financial statement on which I have rendered an adverse opinion, therefore no reliance should be placed on these numbers.

### Exhibit 19 – 2015-16 Coercive Revenue

Type of Coercive Revenue	2016 Amount (\$'000)	% of Total
Import Duties	159,834	24%
Banks and Trust Licenses	31,592	5%
Company Registry Fees	146,863	22%
Work Permits & Other Immigration Fees	79,364	12%
Mutual Fund Administrators	44,544	7%
Stamp Duty - Land Transfers	52,987	8%
Cruise & Environment Tax	16,494	2%
Tourist Accommodation Charges	21,134	3%
Proceeds of Liquidated Entities	16,652	2%
Other Fees	103,797	15%
<b>TOTAL</b>	<b>673,261</b>	<b>100%</b>

Source: EPS 2015-16 financial statements note 21

### Exhibit 20 – 2015-16 Coercive Revenue by Entity

Entity	Executive Revenue (\$'000)	% of Total
Treasury	1,156	0%
Ministry of Home Affairs	80,908	12%
Ministry of Finance and Economic Development	200,796	30%
Ministry of Home Affairs, Health & Culture (Health)	470	0%
Ministry of Planning, Lands, Agriculture, Housing and Infrastructure	89,263	13%
Ministry of District Administration, Tourism & Transport Administration	25,336	4%
Judicial Administration	7,354	1%
Cabinet Office	9,650	1%
Ministry of Financial Services, Commerce and Environment	258,326	38%
<b>TOTAL</b>	<b>673,261</b>	<b>100%</b>

Source: EPS 2015-16 financial statements



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## APPROPRIATIONS

144. For 2015-16 (and prior years), the Government was not able to make any assertions on the fair reporting embodied in the schedule of appropriation due to significant inconsistencies in which individual entities had measured the amount of actual usage of appropriations, i.e. certain outputs were being measured but only as a fixed fraction of the annual appropriation without due regard to actual measurable outputs based on the approved budget documentation.
145. In essence, there was no reliable mechanism being used to demonstrate that the input costs being incurred, e.g. salary, consumables and utilities were being allocated to the correct appropriation and in the correct quantities.
146. Exhibit 21 below provides a summary analysis of the actual appropriations incurred per entity as reported in the 2015-16 EPS financial statements compared to the amounts authorized in the appropriation law at an aggregated level. With the exception of the Ministry of Home Affairs Health & Culture (Health), all entities are reported as being within their respective authorized appropriations. However, as the Government was not able to make any assertions regarding the validity of the actual appropriation I do not provide any assurance regarding these results.

**Exhibit 21 – 2015-16 Appropriation Analysis**

<b>ENTITY</b>	<b>Actual *</b>	<b>Appropriation Authorized **</b>	<b>Variance</b>
<b>Home Affairs, Health &amp; Culture (Home Affairs)</b>	84,768,390	86,151,708	1,383,318
<b>Minister of Community Affairs, Youth &amp; Sports</b>	19,368,626	19,413,114	44,488
<b>District Administration, Tourism &amp; Transport</b>	29,704,843	29,820,054	115,211
<b>Planning, Lands, Agriculture, Housing and Infrastructure</b>	31,338,979	33,534,697	2,195,718
<b>Financial Services, Commerce and Environment</b>	Nothing reported	12,358,448	12,358,448
<b>Finance &amp; Economic Development</b>	18,818,916	19,493,120	674,204
<b>Education, Employment and Gender Affairs</b>	75,017,098	76,172,046	1,154,948
<b>Home Affairs, Health &amp; Culture (Health)</b>	44,642,540	42,743,197	(1,899,343)
<b>Cabinet Office</b>	6,187,120	6,585,058	397,938
<b>Portfolio of the Civil Service</b>	8,116,400	8,240,833	124,433
<b>Legal Affairs</b>	6,416,442	6,416,442	-
<b>Office of the Director of Public Prosecutions</b>	3,031,059	3,031,059	-
<b>Judicial</b>	5,945,995	5,945,995	-

Source: \* Numbers taken from EPS 2016 financial statements pages 101-112

\*\* Numbers taken from the *Appropriation (July 2015 to June 2016) Law 2015*

147. Exhibit 22 below provides details on the entities which had exceeded individual appropriations. It should be noted that the Cabinet Office has exceeded two appropriations; however, this was not reflected in Exhibit 21 as on an aggregate level these variances were mitigated by other appropriations that were under-utilized.

**Exhibit 22 – 2015-16 Unappropriated Balances – Ministries and Portfolios**

<b>ENTITY</b>	<b>Actual</b>	<b>Appropriated</b>	<b>Variance</b>
<b>Cabinet Office</b>			
CBO 17 - Information Services Provided to Other Government Agencies	948,916	928,449	(20,467)
CBO 21 - Broadcasting of Public Information and On Air Programs	1,123,132	1,102,747	(20,385)
<b>Home Affairs, Health&amp; Culture (Health)</b>			
HES 11 – Mosquito	7,040,395	5,797,106	(1,243,289)
HEA 10 - Ambulance Services	2,307,647	2,247,293	(60,354)
HEA 11 - Services at District Health Clinics	2,340,003	2,242,947	(97,056)
HEA 19 - Medical Care For Chronic Ailments	803,860	775,608	(28,252)
HEA 20 - Public Health Programs, Investigations and Treatments	2,050,967	1,580,576	(470,391)
<b>Planning, Lands, Agriculture, Housing and Infrastructure</b>			
PAH 4 - Management of Public Recreational Facilities and Cemeteries	1,712,156	1,499,540	(212,616)
<b>Finance &amp; Economic Development</b>			
FED 5 - Financial Reporting and Management Services	4,051,194	3,862,455	(188,739)

Source: EPS 2016 financial statements pages 101-113

# APPENDIX F – SUPPORTING FINANCIAL ANALYSIS - SAGCS

## STATEMENT OF FINANCIAL POSITION

Table 1: Key Balances and Ratio as at 30 June 2015

Entity	Net Current Assets	Current Ratio	Net Total Assets	Equity Injections	Non-Current Debt/Loans
Auditor Oversight Authority	284,830	11.07	294,428	-	-
Cayman Airways Limited	(40,853,962)	0.19	(38,582,862)	6,100,000	20,351,709
Cayman Islands Airport Authority <sup>5</sup>	49,132,166	9.17	68,705,335	-	245,668
Cayman Islands Development Bank	10,469,561	3.39	6,240,964	1,500,000	32,131,275
Cayman Islands Monetary Authority	(10,005,000)	0.90	27,513,000	-	-
CINICO <sup>5</sup>	15,833,449	1.27	16,167,819	-	-
Cayman Islands National Museum	598,661	11.94	2,729,536	-	-
Cayman National Cultural Foundation	336,344	6.18	4,692,394	479,714	-
Cayman Islands Stock Exchange	2,008,951	11.36	2,244,287	-	-
Cayman Turtle Farm (1983) Ltd.	(3,073,611)	0.55	10,643,737	9,506,349	14,418,146
Children & Youth Services Foundation	1,172,871	11.47	1,241,133	-	-
Civil Aviation Authority	7,458,896	3.32	4,808,837	-	-
Electricity Regulatory Authority	1,544,412	7.05	1,544,635	-	-
Health Services Authority	15,516,086	1.67	77,245,433	847,500	1,388,017
Information & Communications Technology Authority	1,755,322	9.42	1,828,400	-	-
Maritime Authority	3,996,332	5.48	3,461,966	-	-
National Drug Council	335,587	6.38	345,829	-	-
National Gallery	149,908	1.96	2,962,078	-	-
National Housing Development Trust	3,638,000	3.65	4,645,000	2,439,000	15,742,000
National Roads Authority	2,875,902	2.33	(7,293,671)	-	-
Port Authority	785,712	1.14	22,037,230	-	1,782,525
Sister Islands Affordable Housing Development Corporation	936,000	17.14	1,588,000	-	-
Tourism Attraction Board <sup>5</sup>	1,066,621	3.52	8,946,628	-	-
University College of the Cayman Islands	(41,702)	0.98	5,582,013	-	-
Water Authority of the Cayman Islands	11,902,260	2.81	68,354,266	-	7,566,650

<sup>5</sup> Unaudited numbers taken from draft financial statements

**Table 2: Key Balances and Ratio as at 30 June 2016**

Entity	Net Current Assets	Current Ratio	Net Total Assets	Equity Injections	Non-Current Debt/Loans
Auditor Oversight Authority	291,874	16.73	300,137	-	-
Cayman Airways Limited	(37,103,343)	0.24	(27,875,014)	7,500,000	16,110,075
Cayman Islands Airport Authority <sup>6</sup>	55,670,989	11.79	79,651,524	-	194,447
Cayman Islands Development Bank	10,544,319	4.53	6,647,603	-	31,819,706
Cayman Islands Monetary Authority	15,955,000	1.15	28,221,000	-	-
CINICO <sup>6</sup>	15,567,179	1.39	15,924,820	-	-
Cayman Islands National Museum	779,563	10.45	2,767,833	-	-
Cayman National Cultural Foundation	225,565	2.50	4,579,630	-	-
Cayman Islands Stock Exchange	2,276,197	14.83	2,430,885	-	-
Cayman Turtle Farm (1983) Ltd.	(1,170,899)	0.81	13,353,152	9,002,749	10,985,178
Children & Youth Services Foundation	1,022,575	12.47	1,496,039	-	-
Civil Aviation Authority	8,921,420	3.94	5,151,490	-	-
Electricity Regulatory Authority	1,590,490	8.65	1,595,975	-	-
Health Services Authority	22,578,730	2.12	94,089,522	7,037,715	1,137,580
Information & Communications Technology Authority	1,522,453	2.61	1,689,148	-	-
Maritime Authority	4,417,460	6.04	3,060,789	-	-
National Drug Council	351,145	7.81	358,624	-	-
National Gallery	(26,355)	0.85	2,700,219	-	-
National Housing Development Trust	5,162,000	4.64	4,507,000	2,436,000	14,473,000
National Roads Authority	1,141,826	1.26	(12,162,838)	-	-
Port Authority	5,318,860	2.19	21,235,433	-	322,583
Sister Islands Affordable Housing Development Corporation	875,000	15.11	1,417,000	-	-
Tourism Attraction Board <sup>6</sup>	1,206,505	5.89	11,234,576	-	-
University College of the Cayman Islands	460,100	1.24	8,205,984	-	-
Water Authority of the Cayman Islands	10,485,848	3.24	66,099,768	-	2,338,584

<sup>6</sup> Unaudited numbers taken from draft financial statements

## STATEMENT OF FINANCIAL PERFORMANCE – SAGCS

Tables 3 to 5 present details of individual SAGCs reported results over the five years 2011-12 to 2015-16.

**Table 3: Net Profit/Loss or Surplus/Deficit reported by SAGCs over the five years 2011-12 to 2015-16**

Year Ending	30-Jun-12	30-Jun-13	30-Jun-14	30-Jun-15	30-Jun-16
Auditor Oversight Authority	(9,644)	9,644	0	194,428	5,709
Cayman Airways Limited	(4,348,672)	(5,725,207)	(1,983,060)	3,057,778	3,207,847
Cayman Islands Airport Authority	4,059,827	(675,233)	1,689,181	10,016,853 <sup>7</sup>	10,885,197 <sup>7</sup>
Cayman Islands Development Bank	(766,880)	(486,834)	61,692	(669,284)	404,513
Cayman Islands Monetary Authority	114,000	(188,000)	684,000	(157,000)	708,000
Cayman Islands National Museum	(761,240)*	(371,116)	5,217	(9,647)	26,297
Cayman National Cultural Foundation	(202,195)	(191,406)	(99,235)	(136,303)	(112,764)
Cayman Islands Stock Exchange	405,925	105,271	257,039	407,128	491,944
Cayman Turtle Farm (1983) Ltd.	(8,134,494)	(7,484,252)	(7,516,306)	(6,340,399)	(6,293,334)
Children & Youth Services Foundation	113,011	206,473	323,611	106,271	254,906
CINICO	(2,635,890)	3,542,473	4,596,067	(1,454,825) <sup>7</sup>	(1,343,207) <sup>7</sup>
Civil Aviation Authority	2,033,328	2,212,330	2,500,092	3,548,511	2,373,925
Electricity Regulatory Authority	480,187	307,479	286,796	396,916	191,340
Health Services Authority	(4,609,703)	(5,622,853)	1,864,479	(1,859,966)	(1,684,406)
Information & Communications Technology Authority	232,883	186,722	181,069	(104,169)	(139,252)
Maritime Authority	(156,452)	(377,717)	782,671	449,740	(401,177)
National Drug Council	14,664	147,541	(29,977)	1,120	12,796
National Gallery	339,124	(85,620)	(108,488)	(116,989)	(261,859)
National Housing Development Trust	(1,394,000)	(1,558,000)	(1,529,000)	(1,703,000)	(2,572,000)
National Roads Authority	(4,169)	(97,541)	304,055	(625,727)	(4,869,167)
Port Authority	548,998	378,000	325,451	349,696	(1,332,011)
Sister Islands Affordable Housing Development Corporation	5,000	(35,000)	(104,000)	(113,000)	(171,000)
Tourism Attraction Board	14,967	(97,957)	(49,368)	(214,875)	(65,653) <sup>7</sup>
University College of the Cayman Islands	445,099	(410,793)	(117,465)	13,781	2,623,627
Water Authority of the Cayman Islands	1,423,925	3,808,611	1,879,657	4,061,412	(2,154,498)
<b>Total</b>	<b>(12,792,401)</b>	<b>(12,502,985)</b>	<b>4,204,178</b>	<b>9,098,450</b>	<b>(214,227)</b>

\*Results for the two years ending 30 June 2012

<sup>7</sup> Unaudited numbers taken from the draft financial statements

**Table 4: SAGC expenses reported over the five years 2011-12 to 2015-16**

<b>Year Ending</b>	<b>30-Jun-12</b>	<b>30-Jun-13</b>	<b>30-Jun-14</b>	<b>30-Jun-15</b>	<b>30-Jun-16</b>
Auditor Oversight Authority	53,586	169,632	288,682	336,568	366,217
Cayman Airways Limited	72,397,116	75,478,193	75,647,771	71,143,165	71,034,680
Cayman Islands Airport Authority	20,065,478	28,302,586	24,779,335	19,938,424 <sup>8</sup>	20,468,353 <sup>8</sup>
Cayman Islands Development Bank	3,835,230	3,477,010	2,398,051	2,929,590	2,076,099
Cayman Islands Monetary Authority	18,296,000	18,885,000	19,214,000	20,337,000	23,700,000
Cayman Islands National Museum	2,387,528*	1,166,395	1,059,849	1,005,436	1,003,947
Cayman National Cultural Foundation	954,408	943,110	968,656	1,037,422	1,006,409
Cayman Islands Stock Exchange	1,269,303	1,341,282	1,377,822	1,433,744	1,450,004
Cayman Turtle Farm (1983) Ltd.	13,745,366	13,860,298	13,556,614	13,503,226	14,828,316
Children & Youth Services Foundation	2,153,266	2,064,353	1,910,870	2,160,229	2,437,997
CINICO <sup>1</sup>	57,510,677	60,057,363	58,999,751	67,350,101 <sup>8</sup>	68,364,462 <sup>8</sup>
Civil Aviation Authority	3,573,087	4,074,194	4,424,175	3,791,638	5,078,173
Electricity Regulatory Authority	596,883	768,156	679,404	530,809	566,997
Health Services Authority	90,307,001	99,538,253	94,486,473	104,847,671	106,920,342
Information & Communications Technology Authority	1,440,946	1,513,953	1,597,885	1,927,540	2,204,340
Maritime Authority	9,139,968	9,237,394	8,823,202	8,386,801	9,740,362
National Drug Council	451,831	434,707	574,764	557,551	549,612
National Gallery	750,991	903,727	983,190	1,033,910	1,096,867
National Housing Development Trust	2,671,000	2,904,000	2,641,000	3,553,000	6,157,000
National Roads Authority	11,272,896	10,809,614	9,272,010	12,740,433	19,072,157
Port Authority	18,401,758	19,115,365	22,902,951	20,180,531	25,631,898
Sister Islands Affordable Housing Development Corporation	75,000	902,000	160,000	523,000	717,000
Tourism Attraction Board	2,676,216	3,129,722	3,102,433	3,140,073	3,039,062 <sup>8</sup>
University College of the Cayman Islands	6,945,896	7,088,432	7,313,125	7,316,388	7,182,921
Water Authority of the Cayman Islands	25,992,541	25,877,876	27,467,944	25,993,540	32,397,967
<b>Total</b>	<b>366,963,972</b>	<b>392,042,615</b>	<b>384,629,957</b>	<b>395,697,790</b>	<b>427,091,182</b>

\* Results for the two years ending 30 June 2012

<sup>8</sup> Unaudited numbers taken from the draft financial statements

**Table 5: SAGC output revenue from Government sources reported over the five years 2011-12 to 2015-16**

<b>Year Ending</b>	<b>30-Jun-12</b>	<b>30-Jun-13</b>	<b>30-Jun-14</b>	<b>30-Jun-15</b>	<b>30-Jun-16</b>
Auditor Oversight Authority	43,942	179,276	288,682	502,042	315,000
Cayman Airways Limited	15,770,000	18,169,183	17,805,808	17,805,800	17,305,800
Cayman Islands Airport Authority	0	0	0	0	0
Cayman Islands Development Bank	577,875	566,768	574,768	570,768	569,268
CIMA	17,350,000	14,865,000	9,865,000	6,865,000	10,693,000
Cayman Islands National Museum	1,311,460*	620,527	887,173	820,800	820,800
CNCF	579,655	567,231	679,394	628,900	628,900
Cayman Islands Stock Exchange	0	0	0	0	0
Cayman Turtle Farm (1983) Ltd.	0	0	0	0	0
CAYS	2,206,809	2,178,000	2,178,000	2,178,000	2,514,513
CINICO <sup>9</sup>	22,639,738	27,136,398	27,039,000	28,309,378	29,706,436
Civil Aviation Authority	0	0	0	0	0
Electricity Regulatory Authority	120,000	119,861	(342)	5,500	15,040
Health Services Authority	24,806,045	29,688,927	31,527,400	25,907,058	27,075,848
ICTA	339,526	340,091	345,551	345,551	325,489
Maritime Authority	1,093,942	394,028	432,270	429,716	427,945
National Drug Council	455,958	552,958	541,138	552,958	552,958
National Gallery	422,000	409,745	434,119	401,850	401,850
NHDT	658,000	642,000	645,000	580,000	581,000
National Roads Authority	10,940,790	9,030,789	9,183,356	1,711,270	3,673,124
Port Authority	0	0	0	0	0
SIADHC	79,000	74,000	55,000	72,000	72,000
Tourism Attraction Board	2,090,591	2,075,076	2,033,555	1,952,214	1,902,213 <sup>10</sup>
UCCI	4,231,440	3,905,976	4,248,542	4,073,205	4,077,658
Water Authority	0	0	0	0	0
<b>Total</b>	<b>105,716,771</b>	<b>111,515,834</b>	<b>108,763,414</b>	<b>93,712,010</b>	<b>101,658,842</b>

\* Results for the two years ending 30 June 2012

<sup>9</sup> Budgeted numbers

<sup>10</sup> Unaudited numbers taken from the draft financial statements



**Table 6: Revenues, Expenses and Surplus/Deficit for the year ending 30 June 2015**

Entity	Revenues from Govt (Outputs)	Revenue from Other Sources	Total Revenue	Expenses	Surplus/ (Deficit)
Auditor Oversight Authority	502,042	28,954	530,996	336,568	194,428
Cayman Airways Limited	17,805,800	56,395,143	74,200,943	71,143,165	3,057,778
Cayman Islands Airport Authority <sup>11</sup>	0	29,955,277	29,955,277	19,938,424	10,016,853
Cayman Islands Development Bank	570,768	1,689,538	2,260,306	2,929,590	(669,284)
Cayman Islands Monetary Authority	6,865,000	13,315,000	20,180,000	20,337,000	(157,000)
Cayman Islands National Museum	820,800	174,989	995,789	1,005,436	(9,647)
Cayman National Cultural Foundation	628,900	272,219	901,119	1,037,422	(136,303)
Cayman Islands Stock Exchange	0	1,840,872	1,840,872	1,433,744	407,128
Cayman Turtle Farm (1983) Ltd.	0	7,162,827	7,162,827	13,503,226	(6,340,399)
Children & Youth Services Foundation	2,178,000	88,500	2,266,500	2,160,229	106,271
CINICO <sup>11</sup>	28,309,378	37,585,898	65,895,276	67,350,101	(1,454,825)
Civil Aviation Authority	0	7,340,149	7,340,149	3,791,638	3,548,511
Electricity Regulatory Authority	5,500	922,225	927,725	530,809	396,916
Health Services Authority	25,907,058	77,080,647	102,987,705	104,847,671	(1,859,966)
Information and Communications Technology Authority	345,551	1,477,820	1,823,371	1,927,540	(104,169)
Maritime Authority of the Cayman Islands	429,716	8,406,825	8,836,541	8,386,801	449,740
National Drug Council	552,958	5,713	558,671	557,551	1,120
National Gallery of the Cayman Islands	401,850	515,071	916,921	1,033,910	(116,989)
National Housing Development Trust	580,000	1,270,000	1,850,000	3,553,000	(1,703,000)
National Roads Authority	1,711,270	10,403,436	12,114,706	12,740,433	(625,727)
Port Authority of the Cayman Islands	0	20,530,227	20,530,227	20,180,531	349,696
Sister Islands Affordable Housing Development Corporation	72,000	338,000	410,000	523,000	(113,000)
Tourism Attractions Board	1,952,214	972,984	2,925,198	3,140,073	(214,875)
University College of the Cayman Islands	4,073,205	3,256,964	7,330,169	7,316,388	13,781
Water Authority of the Cayman Islands	0	30,054,952	30,054,952	25,993,540	4,061,412

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<sup>11</sup> Unaudited numbers taken from the draft financial statements

**Table 7: Revenues, Expenses and Surplus/Deficit for the year ending 30 June 2016**

Entity	Revenues from Govt (Outputs)	Revenue from Other Sources	Total Revenue	Expenses	Surplus/ (Deficit)
Auditor Oversight Authority	315,000	56,926	371,926	366,217	5,709
Cayman Airways Limited	17,305,800	56,936,727	74,242,527	71,034,680	3,207,847
Cayman Islands Airport Authority <sup>12</sup>	0	31,353,550	31,353,550	20,468,353	10,885,197
Cayman Islands Development Bank	569,268	1,911,344	2,480,612	2,076,099	404,513
Cayman Islands Monetary Authority	10,693,000	13,715,000	24,408,000	23,700,000	708,000
Cayman Islands National Museum	820,800	209,444	1,030,244	1,003,947	26,297
Cayman National Cultural Foundation	628,900	264,745	893,645	1,006,409	(112,764)
Cayman Islands Stock Exchange	0	1,941,948	1,941,948	1,450,004	491,944
Cayman Turtle Farm (1983) Ltd.	0	8,534,982	8,534,982	14,828,316	(6,293,334)
Children & Youth Services Foundation	2,514,513	178,390	2,692,903	2,437,997	254,906
CINICO <sup>12</sup>	29,706,436	37,314,819	67,021,255	68,364,462	(1,343,207)
Civil Aviation Authority	0	7,452,098	7,452,098	5,078,173	2,373,925
Electricity Regulatory Authority	15,040	743,297	758,337	566,997	191,340
Health Services Authority	27,075,848	78,160,088	105,235,936	106,920,342	(1,684,406)
Information and Communications Technology Authority	325,489	1,739,599	2,065,088	2,204,340	(139,252)
Maritime Authority of the Cayman Islands	427,945	8,911,240	9,339,185	9,740,362	(401,177)
National Drug Council	552,958	9,450	562,408	549,612	12,796
National Gallery of the Cayman Islands	401,850	433,158	835,008	1,096,867	(261,859)
National Housing Development Trust	581,000	3,004,000	3,585,000	6,157,000	(2,572,000)
National Roads Authority	3,673,124	10,529,866	14,202,990	19,072,157	(4,869,167)
Port Authority of the Cayman Islands	0	24,299,887	24,299,887	25,631,898	(1,332,011)
Sister Islands Affordable Housing Development Corporation	72,000	474,000	546,000	717,000	(171,000)
Tourism Attractions Board <sup>12</sup>	1,902,213	1,071,196	2,973,409	3,039,062	(65,653)
University College of the Cayman Islands	4,077,658	5,728,890	9,806,548	7,182,921	2,623,627
Water Authority of the Cayman Islands	0	30,243,469	30,243,469	32,397,967	(2,154,498)

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<sup>12</sup> Unaudited numbers taken from the draft financial statements

## APPENDIX G – SUPPORTING FINANCIAL ANALYSIS – MINISTRIES, PORTFOLIOS AND OFFICES

Tables 8 and 9 present details of individual Ministries, Portfolios and Offices reported results over the five years periods 2010-11 to 2014-15 and 2011-12 to 2015-16 respectively. Tables 10 and 11 presents an analysis of the individual Ministries, Portfolios and Offices revenues for the years 2014-15 and 2015-16.

**Table 8: Ministries, Portfolios and Offices Expenses Trend Analysis over the period 2010-11 to 2014-15**

Entity	2010-11 (\$'000)	2011-12 (\$'000)	2012-13 (\$'000)	2013-14 (\$'000)	2014-15 (\$'000)	Original Budget 2014-15 (\$'000)	Variance Actual vs original Budget (\$'000)
Cabinet Office	12,081	14,679	10,249	5,751	5,802	5,875	73
Director of Public Prosecution	N/A	2,634	2,560	2,660	2,904	2,919	15
Information Commissioners Office	614	599	619	795	676	781	105
Judicial Administration	4,856	5,244	5,144	5,495	5,666	5,555	(111)
Ministry of Community Affairs, Youth and Sports	13,308	12,767	12,989	12,711	15,067	13,865	(1,202)
Ministry of District Administration, Tourism and Transport	39,164	41,464	35,170	30,014	27,990	29,091	1,101
Ministry of Education, Employment and Gender Affairs #	62,965	69,893	77,121	95,305#	71,695#	74,497#	2,802#
Ministry of Finance and Economic Development (Public Finance)	17,483	17,114	17,761	17,958	16,749	18,007	1,258
Ministry of Fin. Services, Commerce and Environment (Financial Services)	7,994	8,345	8,191	9,166	9,153	11,158	2,005
Ministry of Home Affairs (Health & Culture)	9,794	9,563	11,320	21,378	20,293	21,875	1,582
Ministry of Home Affairs	67,880	69,413	74,401	88,683	89,391	91,721	2,330
Ministry of Planning, Lands, Agriculture, Housing & Infrastructure	63,839	74,325	65,487	44,540	41,967	43,645	1,678
Office of the Complaints Commissioner	630	620	615	646	611	767	156
Office of the Premier	N/A	N/A	1,843	N/A	N/A	N/A	N/A
Portfolio of the Civil Service	2,626	2,589	1,796	7,074	7,212	7,950	738
Portfolio of Legal Affairs	7,833	6,056	5,998	6,543	5,990	6,658	668

# Draft figures from the unaudited financial statements

**Table 9: Ministries, Portfolios and Offices Expenses Trend Analysis over the period 2011-12 to 2015-16**

Entity	2011-12 (\$'000)	2012-13 (\$'000)	2013-14 (\$'000)	2014-15 (\$'000)	2015-16 (\$'000)	Original Budget 2015-16 (\$'000)	Variance Actual vs original Budget (\$'000)
Cabinet Office <sup>#</sup>	14,679	10,249	5,751	5,802	7,370 <sup>#</sup>	7,699 <sup>#</sup>	329 <sup>#</sup>
Director of Public Prosecution	2,634	2,560	2,660	2,904	3,027	3,031	4
Information Commissioners Office	599	619	795	676	557	797	240
Judicial Administration	5,244	5,144	5,495	5,666	5,779	5,991	212
Ministry of Community Affairs, Youth and Sports	12,767	12,989	12,711	15,067	18,178	19,483	1,305
Ministry of District Administration, Tourism and Transport	41,464	35,170	30,014	27,990	29,002	30,318	1,316
Ministry of Education, Employment and Gender Affairs <sup>#</sup>	69,893	77,121	95,305 <sup>#</sup>	71,695 <sup>#</sup>	77,124 <sup>#</sup>	77,550 <sup>#</sup>	425 <sup>#</sup>
Ministry of Finance and Economic Development (Public Finance)	17,114	17,761	17,958	16,749	18,931	19,587	656
Ministry of Fin. Services, Commerce and Environment (Financial Services)	8,345	8,191	9,166	9,153	11,152	13,467	2,315
Ministry of Home Affairs, Health & Culture (Health & Culture) <sup>#</sup>	9,563	11,320	21,378	20,293	19,224 <sup>#</sup>	18,381 <sup>#</sup>	(844) <sup>#</sup>
Ministry of Home Affairs	69,413	74,401	88,683	89,391	93,931	93,392	(540)
Ministry of Planning, Lands, Agriculture, Housing & Infrastructure	74,325	65,487	44,540	41,967	42,174	44,247	2,073
Office of the Complaints Commissioner	620	615	646	611	540	783	243
Office of the Premier	N/A	1,843	N/A	N/A	N/A	N/A	N/A
Portfolio of the Civil Service	2,589	1,796	7,074	7,217	7,507	8,768	1,261
Portfolio of Legal Affairs	6,056	5,998	6,543	5,990	5,848	6,955	1,107

<sup>#</sup> Draft figures from the unaudited financial statements

**Table 10: Ministries & Portfolios 2014-15 Revenue Analysis**

Entity	Outputs to Cabinet (\$'000)	Other Sources (\$'000)	Total Revenue (\$'000)s	% Revenue Cabinet Funded
Cabinet Office	4,818	1,252	6,070	79.4
Director of Public Prosecution	2,920	1	2,921	100.0
Information Commissioners Office	755	0	755	100.0
Judicial Administration	5,516	65	5,581	98.8
Ministry of Community Affairs, Youth & Sports	15,392	199	15,591	98.7
Ministry of District Administration, Tourism and Transport	28,419	569	28,988	98.0
Ministry of Education, Employment and Gender Affairs #	69,972 <sup>#</sup>	2,344 <sup>#</sup>	72,316 <sup>#</sup>	96.8 <sup>#</sup>
Ministry of Finance and Economic Development (Public Finance)	16,622	3,375	19,997	83.1
Ministry of Fin. Services, Commerce and Environment (Financial Services)	8,081	1,896	9,977	81.0
Ministry of Home Affairs, Health & Culture (Health & Culture)	16,567	3,853	20,420	81.1
Ministry of Home Affairs	83,632	9,881	93,513	89.4
Ministry of Planning, Lands, Agriculture, Housing & Infrastructure	31,203	9,875	41,078	76.0
Office of the Complaints Commissioner	767	0	767	100.0
Portfolio of the Civil Service	7,130	475	7,605	93.8
Portfolio of Legal Affairs	5,894	964	6,858	85.9

# Draft figures from the unaudited financial statements

**Table 11: Ministries & Portfolios 2015-16 Revenue Analysis**

Entity	Outputs to Cabinet (\$'000)	Other Sources (\$'000)	Total Revenue (\$'000)s	% Revenue Cabinet Funded
Cabinet Office <sup>#</sup>	6,097 <sup>#</sup>	1,276 <sup>#</sup>	7,373 <sup>#</sup>	82.7 <sup>#</sup>
Director of Public Prosecution	3,031	1	3,032	100.0
Information Commissioners Office	572	0	572	100.0
Judicial Administration	5,946	47	5,993	99.2
Ministry of Community Affairs, Youth & Sports	19,369	269	19,638	98.6
Ministry of District Administration, Tourism and Transport (Tourism)	29,705	502	30,207	98.4
Ministry of Education, Employment and Gender Affairs <sup>#</sup>	75,017 <sup>#</sup>	2,108 <sup>#</sup>	77,125 <sup>#</sup>	97.3 <sup>#</sup>
Ministry of Finance and Economic Development (Public Finance)	18,819	3,593	22,412	84.0
Ministry of Fin. Services, Commerce and Environment (Financial Services)	9,715	2,212	11,927	81.5
Ministry of Home Affairs, Health & Culture (Health & Culture) <sup>#</sup>	16,077 <sup>#</sup>	3,983 <sup>#</sup>	20,060 <sup>#</sup>	80.1 <sup>#</sup>
Ministry of Home Affairs	85,281	10,729	96,010	88.8
Ministry of Planning, Lands, Agriculture, Housing & Infrastructure	31,339	10,743	42,082	74.5
Office of the Complaints Commissioner	783	0	783	100.0
Portfolio of the Civil Service	8,116	427	8,543	95.0
Portfolio of Legal Affairs	6,416	728	7,144	89.8

<sup>#</sup> Draft figures from the unaudited financial statements

# APPENDIX H – MATTERS AFFECTING THE OPINION ON THE EPS (SUMMARY FINANCIAL STATEMENTS)

## BASIS FOR MY AUDIT OPINION

### OPENING BALANCES AND PERVASIVE INACCURACIES

148. The timing of the subsidiary entity financial statements audits has a direct impact on the accuracy and completeness of the consolidated financial statements, as the cut off point for the preparation of the consolidated statements occurs before the completion of all subsidiary audits and any adjustments or omissions resulting from these audits will not be reflected in the consolidated financials.
149. For both the 2015 and 2016 there were adjustments related to ongoing audits which we considered likely to be material and pervasive but were not reflected in the respective consolidated financial statements resulting in an adverse opinion for both years.

### EXCLUSION OF THE PUBLIC SERVICE PENSIONS BOARD FROM CONSOLIDATION

150. It is my view that the balances related to the Public Service Pensions Board (PSPB) should be included in the consolidated financial statements as government has achieved and maintains control over the PSPB as defined by IPSAS 6 – Consolidated and Separate Financial Statements. This position remains unchanged for both the 2015 and 2016 fiscal years as no measures have yet been put in place to address control issues.
151. The Ministry of Finance agrees that the PSPB is a government controlled entity and should be included in the EPS consolidated accounts; however, the transactions of the PSPB (the operational division) are comingled and reported jointly with those of the Public Service Pensions Plans inclusive of plan assets. The Public Service Pensions Law states that the Plans' assets are for the direct benefit of the participants and therefore the Ministry of Finance is of the opinion that the assets of the Plans should not be included in the Government's accounts as the inclusion of these assets would be misleading and conflict with the objective of the financial statements.
152. However until there is a clear separation of control between the Pension Board and the Plan (i.e. the plan assets) the presentation of the Government's consolidated financial statements will not be in compliance with the requirements of IPSAS 6 and this will continue to result in a qualification as it has been the case in 2015 and 2016.

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## PROPERTY, PLANT AND EQUIPMENT (PP&E)

153. The Government's accounting policy for Property, Plant & Equipment (PPE) requires PPE to be measured using the revaluation model, which would allow the Government to present all of its assets a fair value.
154. Although the Core Government has conducted a comprehensive asset valuation exercise, there remains lands and buildings held by SAGCs that are not stated at revalued amounts and no adjustments have been made for these items in the consolidated financial statements, resulting in inconsistencies in the presentation.
155. Entities with assets included in the consolidated financial statements for 2016 were – Cayman Islands Airport Authority, Cayman Airways Limited, Cayman National Cultural Foundation, Cayman Turtle Farm, The National Gallery, Cayman Islands Port Authority, Tourism Attraction Board and The Water Authority.
156. The Government conducted a revaluation of the roads network; however, on reviewing the evidence provided to support the revaluation, it was found that there was no formal valuation report outlining the criteria method used, assumptions of value, details of location/main roads covered, etc.
157. There was also no clear indication that the roads on Little Cayman were included in the valuation exercise which raised significant concerns regarding the completeness of the amount presented in the consolidated financial statements.
158. The preceding matters resulted in the PPE balances in the 2015 and 2016 consolidated financial stated being qualified.
159. As a result of the valuation and completeness issues impacting PPE, the related depreciation and amortization expenses of \$54 million in 2016 and \$51 million in 2015 were also included as qualification points on the respective consolidated financial statements.



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## LONG-TERM EMPLOYEE BENEFITS

160. IPSAS 25 – Employee Benefits requires that entities recognize the liabilities arising from post retirement obligations. Specifically, the standard prescribes the accounting and disclosure by public sector entities for employee benefits such as post-employment medical care and pension plans which can be categorized as a defined benefit plan or contribution plans.
161. In the 2015 and 2016 consolidated financial statement the Government did not recognized its post-retirement healthcare obligations for Civil Servants based on the actuarial valuation as at 30 June 2016 which estimated a net liability of \$1.4 billion and an associated post medical expense of \$141 million.
162. In addition to not recognizing the liabilities, the complete relevant expenses for post-retirement healthcare and pensions obligations have not been recognized within the financial statements for 2015 or 2016. As a result Personnel Costs of \$352 million in 2015 and \$400 million in 2016 have been understated.
163. Consequently the EPS consolidated financial statements are materially misstated as a result of not meeting the requirements of IPSAS 25.

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## REVENUES AND RECEIVABLES

164. The financial statements reported coercive revenues (revenue earned by core government using the coercive power of the state and for which no direct exchange of service occurs) of \$674 million for 2016 and \$623 million for 2015.
165. The Government however had no basis on which to confirm the completeness of these revenues due to deficiencies in relevant internal controls. Management was therefore not able to assert as to the completeness of the revenues reported and as a result I was not able to conclude as to whether the amounts reported were fairly presented.
166. The financial statements also report sales of good and services amounting to \$261.3 million in 2016 and \$261.5 million in 2015. The entity contributing the largest portion to this was the Health Services Authority with revenues from patient services fees of \$89 million and \$88 million for the respective years.
167. However as we have reported for a number of years, and also discussed in Appendix D, the controls set-up to ensure completeness of patient revenues are not effective, and do not provide sufficient evidence that the reported revenues are complete. In the absence of properly designed and effective controls, I was unable to satisfy myself that patient services fees were complete. Therefore I was not able to conclude whether the sales of goods and services reported were fairly presented.

168. As a result of the uncertainties in coercive and other revenues highlighted above I was not able to conclude on the fairness of trade receivables of \$32 million as at 30 June 2015 and \$32 million as at 30 June 2016, similarly I was unable to conclude on unearned revenues of \$40 million and \$65 million for the respective periods.

169. I also qualified my opinion in 2016 regarding other receivables of \$14 million due to the completeness of revenues limitations.

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#### OTHER MATTERS IMPACTING THE AUDIT OPINION

170. We have noted that the Government has not established a system for reporting key management personnel transactions as required by IPSAS 20, Related Party Disclosure, resulting in a qualification on the inadequacy of the disclosure presented in the 2015 and 2016 consolidated financial statements.

171. The consolidated financial statements for 2015 and 2016 did not disclose the maximum exposure of financial assets to credit risk as required by IPSAS 15 Financial Instruments: (Disclosure and Presentation) and did not include all of the required disclosures of IPSAS 25 Employee Benefits.

- In the 2015 consolidated financial statements there was no provision for two matters that could have been material to the financial statements. These related to the remediation or clean-up of the George Town landfill and Frank Sound. The Frank Sound matter was subsequently addressed in 2016; however there is no process in place to properly assess and account for all environmental liabilities as at 30 June 2016.
- due to the matters discussed above which have affected the financial results reported in consolidated statements of financial position and of financial performance, I was not able to conclude on the fairness of the amounts reported in the statement of cash flows or on the net worth positions of the Government as at 30 June 2015 and 30 June 2016.

## APPENDIX I – INDIVIDUAL ENTITY REPORTING

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172. This appendix provides details of the specific matters that were included as qualifications in the Audit Reports of individual entities. Also provided are the matters of emphasis or other matters that were included in the Audit Reports for each SAGC, in other words those matters which we considered important enough to draw to the attention of the users of the financial statements but which did not result in a qualification.
173. With respect to the outstanding audits for 2014-15 & 2015-16, no commentary is provided as it is not appropriate to report the final outcomes of these audits before the audit report is signed.
174. With respect to the outstanding audits of the Ministry of Education, Training and Employment for 2013-14, and the Cayman Islands Airport Authority 2013-14 no commentary is provided as it is not appropriate to report the final outcomes of these audits before the audit report is signed.

## MINISTRIES AND PORTFOLIOS - QUALIFICATIONS

ENTITY	2015 QUALIFICATION	2016 QUALIFICATION
<b>JUDICIAL ADMINISTRATION</b>	<p>A detailed fixed asset register was not maintained by Judicial Administration and was therefore not available for audit as at 30 June, 2015. As a result, I was unable to form an opinion on the completeness, existence, accuracy and valuation of the property, plant and equipment, as well as the depreciation expense for the year then ended and the related impact this would have on the equity of Judicial Administration, as at 30 June, 2015.</p>	<p>As was the case in 2015, a detailed fixed asset register was not maintained by Judicial Administration and was therefore not available for audit as at 30 June 2015. As a result, I was again unable to form an opinion on the completeness, existence, accuracy and valuation of the property, plant and equipment, as well as the depreciation expense for the year then ended and the related impact this would have on the equity of Judicial Administration, as at 30 June 2015. I also modified my opinion because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.</p>
<b>MINISTRY OF DISTRICT ADMINISTRATION, TOURISM &amp; TRANSPORT</b>	<p>The Ministry did not maintain sufficient records to include the value of its Inventory on hand on the statement of financial position. As I did not receive sufficient and appropriate information to opine on the completeness, existence, accuracy and proper valuation of inventory at June 30, 2015, I was unable to determine the impact on the statement of financial position and the statement of financial performance.</p> <p>As a result of the poor accounting and significant control matters over the inventory management process I was also unable to determine if maintenance expenses of \$397,000, which is a component of Supplies and Consumables expense recorded in the statement of financial performance</p>	<p>The matters which resulted in qualifications in 2015 were subsequently resolved. No new matters were noted in 2016 thereby resulting in an unqualified opinion being rendered.</p>

ENTITY	2015 QUALIFICATION	2016 QUALIFICATION
<b>MINISTRY OF DISTRICT ADMINISTRATION , TOURISM &amp; TRANSPORT (continued)</b>	<p>which amounted to \$14,594,000, was fairly stated as at 30 June 2015.</p> <p>The Ministry reported an amount of \$711,000 for the surplus payable. Due to the lack of proper information provided on the Inventory discussed above, I was unable to determine the impact on the surplus payable included in the statement of financial position.</p> <p>The total net worth reported in the statement of financial position was \$19,110,000. This balance comprises of the accumulated surplus, revaluation reserve and contributed capital. Management was unable to provide assurance of the accuracy of all components presented due to the impact of prior year accounting qualification matters. As a result, I am unable to satisfy myself of the accuracy of the balances reported at June 30, 2015.</p>	

## SAGCs - QUALIFICATIONS

ENTITY	2015 QUALIFICATION	2016 QUALIFICATION
<b>CAYS FOUNDATION</b>	<p>In common with many charitable organizations, the Foundation derives a material portion of its income from donations, fund raising events and similar activities, the completeness of which is not susceptible to audit. Therefore, I was not able to extend my audit of such income beyond the recorded amounts. Had I been able to extend my audit to the completeness of such income, I may have determined adjustments necessary to income.</p>	<p>The matters which resulted in qualifications in 2015 were subsequently resolved. No new matters were noted in 2016 thereby resulting in an unmodified opinion being rendered</p>
<b>CAYMAN ISLANDS NATIONAL MUSEUM</b>	<p>During the period ended June 30, 2012, the Museum changed the system that maintained the property, plant and equipment register and this resulted in a material adjustment to accumulated depreciation and accumulated surplus. The audit reports on the financial statements for the subsequent years included a qualification in respect of this matter. I was unable to form an opinion on the accuracy of this adjustment or the property, plant and equipment recorded in the statement of financial position as at June 30, 2015 and the related impact that this would have on the accumulated surplus and equity of the Museum as at June 30, 2015.</p> <p>In common with many non-profit oriented organizations, the Museum derives a portion of its cash receipts from various sources, the completeness of which is not susceptible to independent audit verification. Accordingly, my verification of such cash receipts was limited to the amounts recorded in the</p>	<p>For 2016 I qualified my opinion of the same matters that were noted for 2015 regarding the accuracy of property plant and equipment and the completeness of cash from funding raising activities and donations.</p>

ENTITY	2015 QUALIFICATION	2016 QUALIFICATION
<b>CAYMAN ISLANDS NATIONAL MUSEUM (continued)</b>	records of the Museum and I was not able to determine whether any adjustments might be necessary to cash receipts from fund raising income and donations, the increase in cash and cash equivalents for the year ended June 30, 2015, opening cash as at July 1, 2014 and closing cash as at June 30, 2015. In addition, the audit report on the financial statements for the year ended June 30, 2014 included a qualification in respect of the same matter.	
<b>CAYMAN NATIONAL CULTURAL FOUNDATION</b>	No modification to the 2015 audit opinion.	<p>The Foundation was named as a defendant, among others, in a personal injury claim where a judgment was awarded during the year ended June 30, 2016. The judgment awarded the plaintiff damages of CI\$5,946,889 with a further sum and liability for legal costs, which at the 2016 fiscal year end was still to be determined. I was advised that the awarded amount was partially paid by the Cayman Islands Government but no determination was made with respect to whether reimbursement of the claim costs will be sought from the Foundation, or if the payment will be considered an additional contribution to the Foundation, as the Foundation is financially dependent on the Cayman Islands Government.</p> <p>I was unable to obtain sufficient, appropriate audit evidence relating to the amount of the damages applicable to the Foundation. Consequently, I was unable to determine whether any adjustments, if any, were necessary to make to the financial statements.</p>

**ENTITY****HEALTH SERVICES  
AUTHORITY****2015 QUALIFICATION**

As in prior years, I was unable to satisfy myself that the amount of \$89.9 million reported for patient service fees was fairly stated. The Authority could not represent to me that the controls for the recording of patient service fees are effective in ensuring that reported revenues are complete.

I was also unable to satisfy myself that the net amount of accounts receivable of \$23.7 million as shown on the statement of financial position was fairly stated due to the relation of this account to patient revenue, which was qualified as discussed above. The deficiencies regarding revenue and accounts receivable also impacted my ability to assess whether the bad debt provision at 30 June 2015 was fairly stated.

The challenges related to revenues and receivables were also exhibited in the Authority inability to reconcile \$2.2 million of funds received from CINICO to individual receivables in its revenue system.

Due to the concern I have regarding the amount reported for patient related accounts receivable, I was unable to satisfy myself as to the accuracy of the \$69.1 million presented as accumulated deficit in the net worth section of the statement of financial position.

The Authority did not estimate the liability for its post-employment healthcare plan as no actuarial valuation was completed. Therefore, the Authority did not record the liability on the statement of

**2016 QUALIFICATION**

For 2016, the Health Services Authority was qualified for the same matters as in 2015, except for the CINICO reconciliation issue. It should be noted that the amount qualified related to patient revenue and account receivables were \$89.5 million and \$27.9 million respectively.

Due to the concern I have regarding the amount reported for patient related accounts receivable, I was unable to satisfy myself as to the accuracy of the \$70.4 million presented as accumulated deficit in the net worth section of the statement of financial position.



ENTITY	2015 QUALIFICATION	2016 QUALIFICATION
<b>HEALTH SERVICES AUTHORITY (continued)</b>	<p>financial position or provide disclosures in the notes to the financial statements. Consequently, personnel costs and other comprehensive gains/losses were also understated on the statement of comprehensive income for the current and past service costs relating to the liability for the post-employment healthcare plan.</p> <p>Accumulated deficit as at 30 June 2015 was also understated to the extent of the current and past service cost relating to the non-recognition of the post-employment healthcare plan.</p>	
<b>MARITIME AUTHORITY</b>	<p>I issued a qualified opinion on the Maritime Authority's 2015 financial statements as the authority was unable to recognize the estimated costs related to future obligations under its post-retirement healthcare plan as no actuarial valuation was completed.</p> <p>The Authority was also unable to record the required estimated amounts on the statement of financial position and the statement of financial performance. Other long-term liabilities, personnel cost and other comprehensive gain/loss were also understated for the current and past service costs relating to the post-retirement healthcare plan. In addition, the financial statements omitted key disclosure requirements which are required under International Accounting (IAS 19R - Employee benefits).</p>	<p>The Authority was unable to resolve the post-retirement health care issues which resulted in the qualification for the 2015 financial statements. I qualified the 2016 financial statements on these same points.</p>

ENTITY	2015 QUALIFICATION	2016 QUALIFICATION
<b>MARITIME AUTHORITY (continued)</b>	Retained Earnings were also understated to the extent of the current and past service cost relating to the non-recognition of the post-retirement healthcare plan as discussed in the preceding paragraphs.	
<b>NATIONAL GALLERY</b>	In common with many non-profit oriented organizations, the Gallery derives a significant portion of its cash receipts from various sources, the completeness which is not susceptible to independent audit verification. Accordingly, my verification of such cash receipts was limited to the amounts recorded in the records of the Gallery and I was not able to determine whether any adjustments might be necessary to cash receipts from fundraising and donations, the decrease in cash and cash equivalents for the year ended June 30, 2015, opening cash as at July 1, 2014 and closing cash as at June 30, 2015. In addition, the audit report on the financial statements for the year ended June 30, 2014 included a qualification in respect of the same matter.	For 2016 I qualified my opinion of the same matter that was noted for 2015 regarding the completeness of cash from funding raising activities and donations.

ENTITY	2015 QUALIFICATION	2016 QUALIFICATION
<b>NATIONAL ROADS AUTHORITY</b>	<p>I issued a qualified opinion as the Authority did not recognize the estimated costs related to future obligations for post-retirement healthcare benefits as required under International Accounting Standards (IAS) 19 Employee Benefits. As a result, other long term liabilities, personnel cost and other comprehensive gain/loss are understated for the current and past service costs relating to the Authority's post-retirement healthcare plan. In addition, the financial statements omit the required disclosures in accordance with IAS 19R - Employee Benefits.</p> <p>Retained Earnings is also overstated to the extent of the current and past service cost relating to the non-recognition of the post-employment healthcare plan as discussed in the preceding paragraph.</p>	Unqualified audit opinion.

## MINISTRIES AND PORTFOLIOS – EMPHASIS OF MATTER & OTHER MATTERS

ENTITY	2015 EMPHASIS OF MATTER	2016 EMPHASIS OF MATTER
<b>MINISTRY OF COMMUNITY AFFAIRS</b>	Although I did not qualify my audit opinion, I brought to the attention of readers that the financial statements do not include a comparison of original or final budgets and actual amounts as required by International Public-Sector Accounting Standards (IPSAS 24). The Ministry chose to present a separate statement of comparison of budget and actual amounts which indicate the adjustments from original to final budgets. These adjustments relate to fund re-allocation for the Department of Sports, Youth Services Unit and Cayman Islands Cadet Corps which were transferred to the Ministry on January 1, 2015.	No reported matters.
<b>MINISTRY OF HOME AFFAIRS – HEALTH AND CULTURE</b>	Without qualifying my audit opinion, I brought to the attention of the readers that included in the sales of goods and services revenue line item in the financial statements is an amount of \$895,019 for vehicle disposal fees. Under section 57(1) of the <i>Public Health Law (2002 Revision)</i> , the Department of Environmental Health receives directly, a fee charged, collected and paid through Customs for special waste handling related to motor cycle, lead-acid battery and motor vehicle tyres imported into the Islands. It has been determined that based on their nature disposal vehicle fees are considered coercive revenues and should initially be recorded as such in the Ministry's executive revenue account with subsequent transfers to the entity revenue account as disposal services are rendered by the Department of Environmental Health, rather than be directly recorded as entity revenue upon receipt from the Customs department.	Audit not completed.

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**PORTFOLIO OF THE  
CIVIL SERVICE**

No reported matters.

Without qualifying my opinion, I brought to the attention of readers matters pertaining to prior period correction of previously unrecognized revenues. It was not determined in the course of resolving the matter when the accounting error originated, however the prior period presented in the financial statements was restated to reflect the correction.

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**PORTFOLIO OF LEGAL  
AFFAIRS**

Without qualifying my opinion, I brought to the attention of the readers that my opinion for the 30 June 2014 financial statements, dated 31 October 2014, was qualified because the Portfolio did not maintain a detailed fixed asset register and was therefore not available at 30 June 2014. As at 30 June 2015 the property and equipment balance was fairly stated.

No reported matters.

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**MINISTRY OF  
FINANCIAL SERVICES,  
COMMERCE AND  
ENVIRONMENT**

No reported matters.

Although I did not qualify my audit opinion, I brought to the attention of readers that the Ministry was authorized under section 11 (5) of the PMFL to make adjustments to its appropriations for exceptional circumstances. As at the date of my audit report being issued the Supplementary Appropriation Bill had not been passed into Law by the LA.

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## SAGCs – EMPHASIS OF MATTER & OTHER MATTERS

ENTITY	2015 EMPHASIS OF MATTER	2016 EMPHASIS OF MATTER
<b>Cayman Islands Development Bank</b>	<p>Although I did not qualify my audit opinion for 2015, I brought to the attention of readers of the financial statements that Cayman Islands Development Bank obtained a new credit facility in the amount of \$30.6 million (US \$36.8 million) with a local financial institution to consolidate and repay existing credit facilities. The new credit facility will mature on 30 June 2025 and has been guaranteed by the Cayman Islands Government.</p> <p>I also highlighted that the bank's ability to meet its obligations and capacity to sustain its operations are significantly reliant on continued Government support from the proceeds of capital injection and income for the provision of service outputs to Cabinet.</p> <p>My audit report also noted that CIDB had impaired loans as at 30 June 2015 amounted to \$11.9 million which represents 34% of the overall loan portfolio excluding allowances for credit losses.</p>	<p>As was the case in 2015, I brought to the reader's attention in 2016 details regarding the new credit facility in the amount of \$30.6 million (US \$36.8 million) with a local financial institution to consolidate and repay existing credit facilities, which will mature on 30 June 2025 and has been guaranteed by the Cayman Islands Government.</p> <p>In 2016 the bank received \$1.5 million capital contribution from the Government and income of amounting to \$526k for providing services to the Cayman Island Government. These transactions illustrate the reliance of the CIDB on the Government for financial support.</p> <p>My 2016 audit report also noted that CIDB had impaired loans amounted to \$17 million which represents 52% of the overall loan portfolio excluding allowances for credit losses. This is a worsened position when compared to the prior year.</p>
<b>CAYMAN ISLANDS NATIONAL MUSEUM</b>	<p>Without further qualifying my opinion, I noted that the Museum is dependent upon the financial support of the Cayman Islands Government to enable it to meet its obligations as they fall due. Without this ongoing support a material uncertainty exists that casts significant doubt about the Museum's ability to continue as a going concern.</p>	<p>As was the case in 2015, I brought to the reader's attention in 2016 that the Museum is dependent upon the financial support of the Cayman Islands Government to enable it to meet its obligations as they fall due. Without this ongoing support a material uncertainty exists that casts significant doubt about the Museum's ability to continue as a</p>

<b>CAYMAN ISLANDS NATIONAL MUSEUM (continued)</b>	I also noted that the Museum did not comply with the requirements of the Public Management and Finance Law (Section 52), which requires annual financial statements to be prepared, submitted to the Auditor General for auditing, and included in an annual report that is required to be presented to the Legislative Assembly four months and two weeks after the end of the financial year. The Museum's reporting of its financial information to the Legislative Assembly was not in the timeframe required to be in compliance with this section of the Law.	going concern.
<b>CAYMAN NATIONAL CULTURAL FOUNDATION</b>	No reported matters.	Without qualifying my opinion in 2016, I drew attention to note 10 of the financial statements which discloses that the Foundation is dependent upon the continued financial support of the Cayman Islands Government to enable it to meet its obligations as they fall due. Without this ongoing support, a material uncertainty exists that may cast significant doubt about the Foundation's ability to continue as a going concern.
<b>PUBLIC SERVICE PENSION BOARD</b>	Without qualifying my opinion, I informed readers of the financial statement that the 2014 Actuarial Valuation Report which was completed in February 2015, but as at the date of my audit report being issued, had not yet been accepted and approved by the Legislative Assembly. The 2011 and 2008 Actuarial Valuation Reports were accepted and approved by the Legislative Assembly in December 2013 but were not gazetted until September 2015. As the Governor in Cabinet has not yet issued new	In the 2016 audit report I highlighted to readers the updated status regarding the 2014 Actuarial Valuation Report. The report was finalized by the Board and its actuaries in April 2015, was approved by Cabinet and was tabled in the legislative Assembly in June 2016. The recommended rates of contribution contained in the 2014 funding actuarial valuations will become effective 1 July 2016 in accordance with the relevant regulations. As a result, contributions received and contributions receivable

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**PUBLIC SERVICE  
PENSION BOARD  
(continued)**

regulations to prescribe new rates, both contributions received and contributions receivable in these financial statements are reflective of the rates in the 2005 actuarial valuation report, being the last approved rates as at 30 June 2015.

I also highlighted in my audit report that actuary has determined that the continuation of the current scenario of the total plan contributions (including both Defined Benefit and Defined Contribution contributions) for the Public Service Pensions Plan will be insufficient to meet benefit payments and expenses. The actuary further states that the Parliamentary Pensions Plan ("PPP") continues to be severely underfunded. Assets allocated to the PPP cover only 41% of the past service obligations and are insufficient to cover the benefits currently being paid to retired members.

are based on the recommended contribution rates contained in the 2005 funding actuarial valuation which were the last approved contribution rates effective as at 30 June 2016.

I also highlighted in my 2016 audit report that as was the case in the prior year, the actuary determined that the continuation of the current scenario of the total plan contributions (including both Defined Benefit and Defined Contribution) for the Public Service Pensions Plan will be insufficient to meet benefit payments and expenses. The actuary further states that the Parliamentary Pensions Plan ("PPP") continues to be severely underfunded. Assets allocated to the PPP cover only 41% of the past service obligations and are insufficient to cover the benefits currently being paid to retired members.

I also noted that In addition to the monthly contributions and budgeted Past Service liability for the 2015-2016 fiscal year, the Government made an additional payment of C\$18 million to the pension fund.

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**MARITIME  
AUTHORITY**

I drew reader's attention to a contingent liability involving the Authority's operations in the United Kingdom (UK). There is uncertainty as to whether the Authority is required by Her Majesty's Revenue and Customs (HMRC) to pay either corporation tax on surpluses generated or value added tax on services supplied or both on its UK office operations. There have been no formal discussions with the HRMC to date on this matter.

The matter highlighted in 2015 regarding the contingent liability remains unresolved in 2016.



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**MARITIME  
AUTHORITY  
(continued)**

The Authority could be liable for significant corporation taxes on its UK operations. I have included this information in my report because I believe that it is critical for users in understanding any significant issues that may impact the true financial position of the Authority. I did not qualify my opinion with regards to this matter.

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**NATIONAL GALLERY**

Without further qualifying my opinion, I noted that the Gallery did not comply with the requirements of the Public Management and Finance Law (2013 Revision) Section 4: Under this section it states that the financial statements are to be prepared in accordance with International Public Sector Accounting Standards ("IPSAS"). The Gallery's 2015 financial statements were prepared in accordance with International Financial Reporting Standards. No assessment has been made to determine if significant differences in presentation or disclosures would have been required if the financial statements had been prepared in accordance with IPSAS. No adjustments were made to the financial statements because of the non-compliance with the Public Management and Finance Law (2013 Revision).

In 2016, I again highlighted that the Gallery did not comply with the Public Management and Finance Law (2013 Revision) as its financial statements were prepared in accordance with IFRS rather than IPSAS.

I also noted that the Gallery had incurred a net loss of \$261,859 and its current liabilities exceeded current assets by \$26,355. These conditions along with other matters such as the Gallery's heavy reliance on fund raising to cover its operating expenses indicates the existences of a material uncertainty that may cast doubt about the Gallery's ability to continue as a going concern.

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**PORT AUTHORITY**

Without qualifying my opinion I drew attention to details that the Authority was unable to charge tender fees totaling \$597,925 for the manifested cruise passengers as required by Section 26 (e) of the Port Regulations (2011 Revision). This was due to an existing agreement with the Florida-Caribbean Cruise Association (FCCA) in 2003 which prohibits the Port

In 2016 I drew attention to details that the Authority was unable to charge tender fees totaling \$623,434 for the manifested cruise passengers as required by Section 26 (e) of the Port Regulations (2011 Revision). This was due to an existing agreement with the Florida-Caribbean Cruise Association (FCCA) in 2003 which prohibits the Port Authority from

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**PORT AUTHORITY  
(continued)**

Authority from unilaterally increasing fees.

I also drew attention the matters surrounding management's effort to revalue its land, buildings and investment property. Management engaged the services of an external appraiser to carry out the exercise, which was concluded at the beginning of the financial year. Subsequently, management decided not to utilize the valuations provided and therefore decided to continue using the historical cost basis of accounting to report the assets. I have not assessed the impact these valuation reports could have on the carrying value of Land, Buildings and Investment Property and the resultant impact on depreciation and equity.

I also highlighted that under the *Port Authority Law*, any balance of account in favor of the Authority up to the amount of CI\$100,000 may be carried forward to the account of the following year and any excess of that sum shall be paid in to the general revenue of the Cayman Islands Government. Management did not make a provision in the 2015 financial statements or remitted any excess funds to the Cayman Islands Government.

Management does not believe that this is a valid payable to the Cayman Islands Government, the basis being the former Cash Accounting Framework which is inconsistent with the Public Management & Finance Law (2013 revision).

unilaterally increasing fees.

I also highlighted that under the Port Authority Law, any balance of account in favor of the Authority up to the amount of CI\$100,000 may be carried forward to the account of the following year and any excess of that sum shall be paid in to the general revenue of the Cayman Islands Government. Management did not make a provision in the 2016 financial statements or remitted any excess funds to the Cayman Islands Government.

Management does not believe that this is a valid payable to Cayman Islands Government, the basis being the former Cash Accounting Framework which is inconsistent with the Public Management & Finance Law (2013 revision).

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**CAYMAN AIRWAYS**

My audit report for the year ending 30 June 2015 highlighted that Cayman Airways is dependent upon the financial support of the Government of the Cayman Islands, including purchase commitments, to enable it to continue as a going concern and to meet its obligations as they fall due. My opinion was not qualified in respect of this matter.

In 2016, I again highlighted that Cayman Airways is dependent upon the financial support of the Government of the Cayman Islands, including purchase commitments, to enable it to continue as a going concern and to meet its obligations as they fall due. My opinion was not qualified in respect of this matter.

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**ELECTRICITY  
REGULATORY  
AUTHORITY**

No reported matters.

Without qualifying my audit opinion, I drew attention to disclosures in the financial statements which describe future plans that may significantly affect the operations of the Authority. The Government of the Cayman Islands, which owns the Authority, is proceeding with steps to establish a Utility Regulation and Competition Office ("the Office") which will consolidate the regulatory bodies for electricity, telecommunications, water and petroleum sectors.

As at the date of the 2016 audit report, no definitive date had been determined as to when the Office will commence operation, subsequently the Office commenced operations in January 2017.

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**HEALTH SERVICES  
AUTHORITY**

Without further qualifying my opinion, I pointed out that Under sections 7(1) and 18(3)(c) of the Health Services Authority Law, the Authority is required to maintain a cash reserve at a level no less than its estimated expenses for 90 days which I have determined to be \$25.9 million. As at 30 June 2015, the Health Services Authority's total cash and cash equivalents amounted to \$6.6 million, therefore the

As was noted in 2015, the Authority is required to maintain a cash reserve at a level no less than its estimated expenses for 90 days. I have highlighted in my audit report that as at 30 June 2016, the Authority's cash reserve was over \$21.5 million short in meeting this requirement. I did not qualify my opinion with regards to this matter.

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**HEALTH SERVICES  
AUTHORITY  
(continued)**

Authority's cash reserve was \$19.2 million short in meeting this legislative requirement.

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**ICTA**

No reported matters.

Without qualifying my audit opinion, I drew attention to disclosures in the financial statements which describe future plans that may significantly affect the operations of the Authority. The Government of the Cayman Islands, which owns the Authority, is proceeding with steps to establish a Utility Regulation and Competition Office ("the Office") which will consolidate the regulatory bodies for electricity, telecommunications, water and petroleum sectors.

As at the date of the 2016 audit report, no definitive date had been determined as to when the Office will commence operation, subsequently the Office commenced operations in January 2017.

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**NATIONAL ROADS  
AUTHORITY**

No matters.

Without qualifying my audit opinion, I draw attention to note 13 of the financial statements which describes the restatement of the post-retirement health liability. The financial statements for the year ended 30 June 2014 and 30 June 2015 were restated due to the significance of the adjustments required to account for the actuarially determined defined benefit liability for the National Roads Authority post-retirement health liability provided to eligible staff. These adjustments have significantly impacted the financial position of the Authority which resulted

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**NATIONAL ROADS  
AUTHORITY  
(continued)**

in an overall negative equity position as at year end. My opinion was not qualified in respect of this matter

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**SEGREGATED  
INSURANCE FUND**

Without qualifying my audit opinion, I drew attention to disclosures in the financial statements which note that provisions of the Health Insurance Regulations require the collection of contributions from all health insurance carriers including the insureds of Cayman Islands National Insurance Company, Ltd ("CINICO"), a related party. The approved ownership agreement of CINICO for the year ended 30 June 2015 excluded such contribution payments to the Segregated Insurance Fund. Therefore, the Segregated Insurance Fund did not enforce collection of contributions on CINICO premiums for the year ended 30 June 2015, specifically the portion pertaining to Civil Servants, Pensioners, Seamen and Veterans. The Health Insurance Commission intends to legislate the exclusion of the CINICO contributions pertaining to Civil Servants, Pensioners, Seamen and Veterans, through a proposed Health Insurance (Amendment) Bill.

I also noted that the Segregated Insurance Fund is not required to present budget information in the financial statements as required under IPSAS 24 "Presentation of Budget information in Financial Statements" for entities preparing its Financial Statements under IPSAS. This information is not presented as the Segregated Insurance Fund as a separate entity does not produce an annual budget statement for which it is held publicly accountable.

In 2016 the matter related to CINICO was adequately addressed and as such was not repeated in my audit report. I however highlighted again that the Segregated Insurance Fund is not required to present budget information in the financial statements as required under IPSAS 24 "Presentation of Budget information in Financial Statements" for entities preparing its Financial Statements under IPSAS. This information is not presented as the Segregated Insurance Fund as a separate entity does not produce an annual budget statement for which it is held publicly accountable.

<b>SEGREGATED INSURANCE FUND (continued)</b>	This is a key requirement of IPSAS 24 for the presentation of budget information in financial statements.	
<b>CAYMAN TURTLE FARM (1983) LIMITED</b>	Without qualifying my audit opinion, I drew attention to disclosures in the financial statements which that the Company is dependent upon the continued financial support of the Government of the Cayman Islands to enable it to meet its obligations as they fall due. Without this ongoing support a material uncertainty exists that casts significant doubt about the Company's ability to continue as a going concern.	As was noted in 2015, The Cayman Turtle Farm remained dependent upon the continued financial support of the Government of the Cayman Islands to enable it to meet its obligations as they fall due. Without this ongoing support a material uncertainty exists that casts significant doubt about the Company's ability to continue as a going concern.

## **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](mailto: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](mailto:foi.aud@gov.ky)

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