


Financial and Performance Reporting

Ministries, Portfolios and
Offices for the years
ending 30 June 2011 and 2012





Our independent work
promotes good governance,
transparency and
accountability in the use
of public funds

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TABLE OF CONTENTS

Executive Summary	1
Introduction	3
Results of the 2010-11 and 2011-12 Audits	4
Introduction	4
Quality of Financial Reporting.....	5
Timeliness of the Financial Reporting.....	8
Transparency and Accountability.....	9
Financial Performance	11
Introduction	11
2011-12 Reported Results.....	12
Summary	16
Entity Qualifications	18
Governance and Internal Control Issues	21
Conclusion	26
Appendix A – Status of the 2011-12 Audits	27
Appendix B – Status of the 2010-11 Audits	28
Appendix C - Audit Opinion Definitions	29
Appendix D – Supporting Financial Analysis	30
Appendix E – Individual Entity Reporting	32
Cabinet Office	32
Director of Public Prosecutions.....	33
Information Commissioners Office	33
Judicial Administration.....	34
Ministry of Community Affairs, Gender and Housing.....	34
Ministry of District Administration, Works, Lands and Agriculture.....	35
Ministry of Education, Training and Employment	36

Ministry of Health, Environment, Youth, Sports and Culture 37

Ministry of Financial Services, Tourism and Development (MFTD)..... 38

Office of the Complaints Commissioner 44

Portfolio of the Civil Service..... 45

Portfolio of Internal and External Affairs..... 45

Portfolio of Legal Affairs 47

EXECUTIVE SUMMARY

I am pleased to present this report to the Legislative Assembly that summarises the financial audits of the ministries, portfolios and offices in core government (M&Ps) for the years ending 30 June 2011 and 30 June 2012. I believe that Members of the Legislative Assembly will find this report useful in their role to ensure financial accountability and transparency for Government operations.

Along with government's summary financial statements, the annual reports and financial statements of the individual entities of government are the key documents that enable the Legislative Assembly and the residents of the Cayman Islands to hold ministries, portfolios, offices, statutory authorities and government companies accountable for their use of public resources. In December 2010, I delivered my first report on the preparation and tabling of financial reports and over the subsequent three years I have provided the Legislative Assembly with reports on the progress that Government has made in preparing and tabling these fundamental accountability documents. A significant amount of time and resources was devoted by Government and my Office to clear the backlog of prior year financial statements while undertaking audits of more current financial statements.

This is the first general report I have been able to submit on the results of my audits of the ministries, portfolios and offices for the most recent fiscal years. Similar reports will be produced in the future and, as the completion of entity financial statements continues to be more timely, I will be able to issue these reports to the Legislative Assembly closer to the fiscal year end.

With respect to the M&Ps financial reports for the fiscal years ending 30 June 2011 and 30 June 2012, I saw improvements in both timeliness and quality. Particularly, for the year ending 30 June 2012, there was progress in the quality of information presented. However, whilst the story is one of progress, there is still a significant way to go before accountability as envisioned in the *Public Management and Finance Law (PMFL)* is effectively achieved. The picture across the individual entities is varied, with some performing well while others are still challenged to meet their administrative and legislative responsibilities. For the year ending 30 June 2012 there has been an increase in the number of unqualified audit opinions, up to six compared to two in the previous year. However the remaining 21 opinions issued for the two fiscal years were qualified and there are at least two significant entities that still have fundamental issues in being able to present credible financial statements that can be relied upon by Legislators and the public.

In this report, I discuss my concerns regarding the timely completion and publication of credible financial and performance information including:

- the financial statements for 6 of the 15 entities for the year ending 30 June 2012 were completed in line with the statutory timetable, up from two in the previous year;
- two years after the 30 June 2012 fiscal year two entities were still outstanding;
- there continue to be significant delays in tabling annual reports and financial statements by the responsible ministries;
- financial statements are difficult to locate and access on government's websites
- a number of entities have only been tabling their financial statements in the Legislative Assembly and not annual reports discussing their wider performance as required under the PMFL; and
- there are significant weaknesses in the internal control environments and governance of certain entities creating increased risks of mismanagement and abuse.

The government also needs to consider whether the financial reporting required under the PMFL provides clear accountability for the use of public resources. I have also highlighted some deficiencies in the current financial reporting framework which in our view effectively obscure accountability and transparency in the use of public resources, and for the expenditures authorised by the Legislative Assembly.

For progress to continue towards the ultimate objective of restoring financial accountability, I believe entities should provide regular reports to the Legislative Assembly on the steps they are taking to improve the quality of their financial statement submissions and underlying information while strengthening their internal control environments and overall governance arrangements. This and future reports can provide Members of the Legislative Assembly with a roadmap for how to hold entities to account.

I look forward to working 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

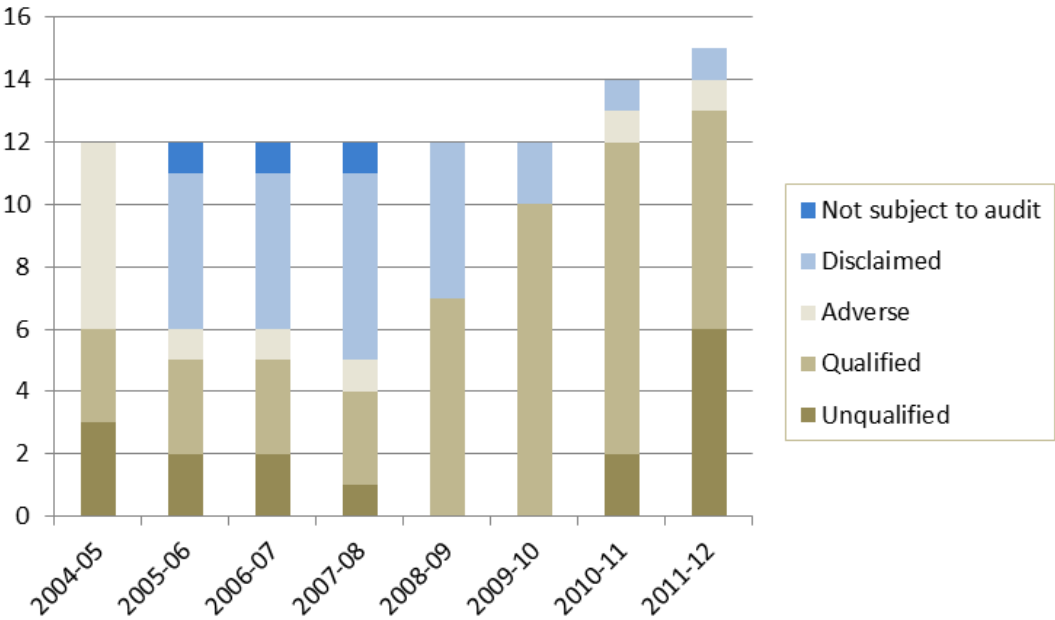
1. Timely, accurate and reliable financial information is a fundamental component in ensuring the effective governance and accountability of Government and public entities. Without this information, decision making is compromised as Legislators and officials cannot make effective and robust decisions regarding the allocation of resources and effective management of the resources at their disposal. Furthermore, the Government cannot be held accountable for how they have used public money.
2. I have issued a number of reports over the last few years where I have discussed the issues around financial and performance reporting across the public sector and the progress that had been made in clearing the backlog of financial statements and restoring financial accountability. These reports document the continual progress that has been made in financial reporting by entities, but at the same time, highlight the significant effort still required to restore financial accountability.
3. The purpose of this report is to provide information about the audits of ministries, portfolios and offices (“M&Ps”) for the years ending 30 June 2011 and 30 June 2012. The report contains the following:
 - the status of M&P audits up to and including 2011-12;
 - highlights of the financial performance contained in the audited financial statements of M&Ps for 2011-12;
 - concerns raised in my audit reports on individual M&P financial statements; and
 - other significant governance, internal control and financial management concerns that I reported to entity management for them to consider for improving their management of financial resources and financial reporting.

RESULTS OF THE 2010-11 AND 2011-12 AUDITS

INTRODUCTION

- There has been improvement in the quality and timeliness of the annual financial reporting for M&Ps over last three years. As at the date of this report, the audits of the financial statements for the years 30 June 2011 and 2012 have been completed for all the ministries, portfolios and offices.
- For the year ended 30 June 2012, of the fifteen audits completed, six received unqualified opinions, seven qualified opinions, one received an adverse opinion and one audit was disclaimed. For the year ended 30 June 2011, I issued two unqualified opinions, ten qualified opinions, one adverse opinion and one audit was disclaimed. Exhibit 1 below demonstrates the general trend of improvement in the opinions that my Office has issued since the introduction of the PMFL in 2004-05.

Exhibit 1: Ministries and Portfolios audit opinions



- Further information on the audits is 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 for Auditing*.

QUALITY OF FINANCIAL REPORTING

7. The purpose of annual financial reporting is to provide accountability to the Legislative Assembly and residents of the Cayman Islands about the use of public resources. It is expected that all M&Ps should present annual financial statements and that they receive an unqualified audit opinion which provides assurance that the information is credible and reliable, and reflects the entities' financial position and how they used resources.
8. 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 also present clear evidence of failures of governance, internal control and financial management.
9. In the years leading up to 2009-10, a significant number of disclaimers were issued primarily in the larger ministries. For example, in 2007-08 only one M&P received an unqualified opinion, three were qualified, whilst one received an adverse opinion, six were disclaimed and one was not subject to audit. There were very few unqualified audit opinions, with no financial statements receiving unqualified audit opinions in 2008-09 and 2009-10.
10. The trend shows that the position has been improving with a significant decrease in the number of disclaimers of opinion, and an increase in the number of unqualified audit opinions. The audit opinions for 2010-11 provided the first indicators that audited financial statements have some degree of reliability and credibility. In 2011-12, there was a further improvement in the quality of the entity financial statements as six entities (2010/11: two entities) received unqualified audit opinions, and a further four entities were only qualified in relation to issues relating to the valuation of the property, plant and equipment. The improvements include improved accounting practices, better supporting information and better presentation of information for readers.
11. It is important to recognize the positive trend for the information in M&Ps' financial statements and the significant work that has been undertaken to move the position forward. However this is all relative to the dire position that had been reached four years ago, when there was a large void in the reporting of credible financial statements since the introduction of the PMFL and the complete lack in accountability for the use of public resources.
12. However, while some M&Ps are now operating with more effective financial management and financial reporting, there are still significant underlying issues that continue to have a fundamental impact on the effective financial management and reporting across certain M&Ps, in particular in some of the larger spending ministries.

13. The **effective and efficient** production of reliable and credible financial information is predicated on a sound governance and internal control framework which provides 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.

14. Such a framework enables management to use financial information with confidence throughout the year to support effective decision making; ensure that resources are not being wasted, mismanaged or abused and, being used in line with laws and regulations. Finally it enables entities to prepare reliable annual financial statements efficiently and effectively, in turn leading to a more efficient audit. Furthermore, the Financial Regulations specifically require that a chief officer of a M&P

“ensure that an appropriate system of internal controls operates within the entity and that the system is adequate to safeguard the entity or executive resources for which the entity is responsible”.

15. Whilst some entities are performing better than others, the evidence from our audits clearly shows that there are still significant issues with respect to the governance, financial management and internal control frameworks operating in core government. These issues continue to undermine real accountability for the use of public resources in the Cayman Islands Government.

16. Later in the report we discuss the specific issues on which M&Ps had their financial statements qualified (paragraphs 57 to 65 and Appendix E), and the wider governance, internal control and management issues (paragraphs 66 to 89 and Appendix E), but there are two entities that I would highlight where I have the most significant concerns:

- Ministry of District Administration, Works, Land and Agriculture; and
- Ministry of Finance, Tourism and Development, and in particular the Tourism and Development portfolio

17. **Ministry of District Administration, Works, Land and Agriculture:** As at the date of this report no financial statements have been issued for this Ministry (or its predecessor) that have presented reliable and credible financial information since the introduction of the PMFL. We have issued one adverse opinion and seven disclaimers of opinion on the annual financial statements for the eight years up to and including 30 June 2012, which indicate that the information could not be relied upon at all. The main reason is that the Ministry could not provide evidence and information to support the transactions and balances of the Ministry. In Appendix E, paragraph 13 I provide some details of key areas where we have not been able to obtain sufficient and appropriate evidence. However, apart from these issues there are wider governance issues around the effective leadership and management of the finance function and ensuring there is a robust internal control environment, which undermines the Ministry's ability to present reliable financial information.
18. For the year ended 30 June 2012, whilst the Ministry provided draft financial statements to the OAG in line with the statutory timetable of 31 August 2012, management could not provide support for significant account balances. Subsequently, the Ministry provided amended financial statements, however problems and issues continued to be identified which needed to be addressed to enable an audit to commence.
19. In August 2014, due to significant ongoing challenges with the information presented in the 2011-12 financial statements, and after discussion with my Office, the Ministry represented that they could not prepare financial statements that presented fairly the results of the Ministry and I therefore issued a disclaimer of opinion. My Office is now engaging with the new Chief Financial Officer in the Ministry to ensure that the Ministry's financial management challenges are addressed and it is able to present financial statements that enable my Office to undertake an audit and reach an opinion.
20. **Ministry of Finance, Tourism and Development:** In this Ministry we have significant concerns in particular about the financial reporting for Tourism and Development. This is reflected in the adverse opinion on Tourism and Development's financial statements for the year ending 30 June 2012 which indicated that the financial statements did not present fairly the financial position and performance of the entity and that they could not be relied upon. In the prior seven years the financial statements either received an adverse opinion or were disclaimed due to insufficient supporting evidence and information.
21. In Appendix E, paragraphs 28 to 42 I provide details of the issues which led me to provide adverse opinions on both the 30 June 2011 and 2012 Tourism and Development's financial statements. Whilst there are a number of concerns, a common theme is the inability to effectively account for a broad variety of transactions on an accruals basis, raising significant concerns about the capability of the entity's finance personnel and its ability to carry out this important role.

22. Wider than the issues captured in the audit opinions, the findings from our audits also raise significant concerns about the governance and internal control environment in Tourism and Development, and to a lesser degree also in the Financial Services and Public Finance entities. Appendix E, paragraphs 43 to 52 provides more information about these issues. They include:
- material internal financial control weaknesses including poor bank reconciliations, lack of segregation of duties, inappropriate authorization of invoices for payment, lack of monitoring and review by management, and write-off of large account balances without approval;
 - poor controls around travel and hospitality expenditures;
 - disregard for procurement rules and procedures; and
 - significant concerns around the management of the overseas tourism offices.
23. As a result of these problems, managers in these two entities have not had reliable information on which to make informed decisions, legislators have had no assurance that the resources they approved have been used for the purposes they were intended and the public has had no assurance on how their money has been used. Ultimately there has been no accountability for around **\$1 billion** of public funds in these two Ministries, and a significant increase in the risk of waste, misuse or abuse of public funds.
24. These financial management problems are indicative of the failure of certain M&Ps to ensure that they have the people and practices in place to effectively manage the public resources for which they are responsible. The lack of due regard for reasonable controls and the number of transgressions of the laws has led me to conclude that management in certain M&Ps have not discharged their duties to ensure appropriate practices are implemented to protect public funds and that they have disregarded their responsibility to comply with Cayman Islands laws.

TIMELINESS OF THE FINANCIAL REPORTING

25. There continues to be improvements in the timeliness of draft financial statements prepared for audit along with better supporting information. This has led to improvements in the timeliness of the completion of audits and issuance of the financial statements.
26. For the 2010-11 financial statements, all submissions were received by the 31 August deadline for the first time since the introduction of the PMFL. This was achieved again for the 2011-12 submissions. Whilst the quality and auditability of these initial submissions varied, this still represents an improvement from prior years.
27. For the year ended 30 June 2011, two audits were completed by the statutory deadline of 31 October 2011. For 2011-12, this increased to six audits being completed by the statutory deadline. This is indicative of the continued improvement in the timeliness which is directly related to the improvements in the quality of the M&P submissions.

28. However, significant improvement in the quality of submissions and entity internal control environments is required if the objective of meeting the statutory timescales set out in the PMFL are to be achieved. Undoubtedly the backlog of financial statements during this period continued to have an impact on the timely completion of some of the 2010-11 and 2011-12 financial statements. It also likely contributed to issues around the quality of some initial submissions for audit.

DELAYS IN COMPLETION

29. The timely issuance of financial statements is a critical element of good accountability by entities. As we note in Appendices A and B, the majority of our audit opinions have been or will be signed off after the statutory deadline of October 31. While the results for 2010-11 and 2011-12 represent an improvement on previous years, we are still concerned about the time it is taking between the date of audit work completion and the date of final sign off by management in some entities.

30. Management should be responding to questions arising from our audit process and findings in a timelier manner leading to more timely financial reporting. For the 2012-13 audits, we are looking for continued improvement in the timeliness by which entities deal with the issues arising from our audits to enable the prompt completion of their financial statements.

TRANSPARENCY AND ACCOUNTABILITY

31. The final link in the accountability chain for the use of public resources that starts with the approval of the Budget in the Legislative Assembly is the tabling of each M&P's annual report in the Legislative Assembly, at which time they become public documents. Among other objectives, the annual report provides information about the operations and explanations for the financial results. Without annual reports, it is almost impossible for stakeholders, Legislators and citizens, to understand how public resources have been used and hold Government and public bodies accountable. Financial statements in themselves are just one part of the accountability reporting framework demanded by the current legislation.

32. As at the date of this report, the annual reports and/or financial statements for the majority of entities have now been tabled for both 2010-11 and 2011-12 with six still outstanding. Eight M&P annual reports and/or financial statements for prior years have still not been tabled.

33. Where reports have been tabled for 2011-12 and prior years, we found that most contain just the financial statements rather than the full annual report as required by the PMFL. In addition, we found that the annual reports were tabled well after the financial statements were signed off and too late for providing useful information to stakeholders, Legislators and the public. For 2010-11 and 2011-12 the majority of the reports were tabled at least 6 months after the date the financial statements were signed off, with a significant number taking up to a year and in one instance 18 months between sign off and tabling. The lack of full accountability reports continues to be a fundamental transgression of the PMFL and represents a disregard for the accountability of public funds.
34. The timely issuance of an annual report and its tabling in the Legislative Assembly is probably the most fundamental element in the accountability framework for a public sector entity. Without this, the accountability of these entities for their performance and use of resources is undermined, as Legislators and all other stakeholders are not able to review performance and hold them accountable.
35. Even after 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 proactively be making their annual reports or financial statements accessible to all stakeholders on their own websites and through other appropriate mechanisms, to further promote transparency and accountability.
36. In the future, as more financial statements are signed off within the statutory timeframes, it should be a priority for entities to ensure that they are organized and resourced to prepare annual reports that talk more widely about their operational and financial performance, so they are tabled in Legislative Assembly in accordance with the timescales required in the PMFL, and made easily accessible to all stakeholders.

FINANCIAL PERFORMANCE

INTRODUCTION

37. In future years as financial reporting becomes more current, and in the absence of effective discussion and analysis of financial performance in annual reports by Government and its entities, it is my intention to provide some commentary and analysis on the financial position and performance of Government entities. With respect to the years ending 30 June 2011 and 2012 that are covered in this report, due to the length of time since the year end we have not included the level of analysis that we would intend to provide in future years.
38. When looking at the financial performance reported by M&Ps in their entity financial statements, care needs to be taken in interpreting and understanding the results being reported. Readers need to understand that significant areas of activity undertaken by Government are not reported in the M&P financial statements, but only reported in the Entire Public Sector (EPS) financial statements. For example, transfer payments made by the Government to individual entities or organisations of approximately \$31 million, the purchase of outputs of nearly \$29 million from non-governmental organisations and other executive expenses of nearly \$17 million are only accounted for through the Entire Public Sector financial statements even though they are effectively administered by the individual M&Ps. Equally the output funding and equity investments of respectively \$101.6 million and \$19.5 million provided to Statutory Authorities and Government Companies, though again administered through the M&Ps are also not included in their financial reports. This is due to the artificial separation of transactions into entity and executive, with only transactions that are classified as entity being recorded in the M&P financial statements.
39. Ultimately, this in my view obfuscates the financial performance and accountability of each individual ministry as the financial statements do not report the financial impact of all the activities they administer, and the reader needs to understand the complexities of the accounting framework employed by Government to interpret the information that M&Ps are reporting in their financial statements. Presently the reporting format for the EPS financial statements does not provide an analysis for each individual Ministry of all the transactions, both entity and executive, to give the reader a full understanding of the activities and costs of each individual Ministry. Therefore it would take a significant amount of additional time and analysis for any reader to try and get a clear picture of the full activities undertaken or funded through each Ministry.
40. As an example Exhibit 2 provides details of expenses incurred on activities undertaken or funded through the Ministry of Health, Environment, Youth, Sports and Culture (MHEYSC).

Exhibit 2: MHEYSC Entity and Executive expenses/outputs – 2011-12

Expenses/ Outputs	Source	Actual \$000s	Budget \$000s
Ministry Expenses	Ministry Entity Financial Statement	9,563	9,779
Tertiary Care at Overseas Institutions	Note 24 of the draft EPS Financial Statements	18,358	8,213
Purchase of Outputs from other NGOs	Note 24 of the draft EPS Financial Statements	1,260	1,320
Other Executive Expenses	Note 26 of the draft EPS Financial Statements	48	59
Outputs Purchased from the CINICO (Veteran and Seamen’s Health Insurance)	*Budget figure as not separately identified in draft EPS Financial Statements	7,472	7,472
Outputs Purchased from the HSA	Note 35 of the draft EPS Financial Statements	24,937	24,966
Outputs Purchased from other SAGCs	Note 35 of the draft EPS Financial Statements	2,093	2,093
Totals		63,731	53,902

41. The analysis I have provided in the above exhibit comes with a warning that it is partly based on unaudited figures contained in the draft EPS financial statements presented for audit and the possibility that there may be some expenses not included. However for the purposes of demonstrating the difficulties with Ministry financial statements, Exhibit 2 effectively shows that out of a total of over \$63m of expenditures related to MHEYSC, only 15% is reported through the Ministry’s financial statements that I discuss in this report. Therefore it is challenging for a reader of the Government’s financial statements to determine the level of resources actually used by government to deliver services relating to health, environment, youth, sports and culture; thus diminishing accountability for their activities during this period.

2011-12 REPORTED RESULTS

42. In examining the results for 2011-12, we have included the results from all M&Ps financial statements. The majority of the reported results have a reasonable degree of reliability. However we have also included the results reported for DAWLA and Tourism despite the significant question marks over their reliability and credibility, in order provide the reader with a complete view of the level of activity undertaken. Again, I reiterate that my analysis excludes the executive transactions administered by the M&Ps.

43. Our analysis of the results reported by the individual M&Ps has included two key areas: the surplus/deficit reported; and, the performance against the authorized budget (or appropriations) as passed by the Legislative Assembly through the Appropriations Law.

SURPLUS/DEFICIT

44. Exhibit 3 presents the revenues generated, the expenses incurred and the surplus/deficit reported for the year ending 30 June 2012. Also provided is the surplus/deficit reported in the prior year.

Exhibit 3: M&Ps 2011-12 Revenues, Expenses and Surplus/Deficit

Entity	Revenue (\$'000)	Expenses (\$'000)	Surplus/Deficit		
			2011-12 (\$'000)	Prior Year (\$'000)	
Cabinet Office	11,980	14,679	(2,699)	500	
Director of Public Prosecution	2,707	2,634	73	N/A	
Information Commissioners Office	575	599	(24)	39	
Judicial Administration	4,922	5,244	(322)	24	
Ministry of Community Affairs, Gender and Housing	12,744	12,767	(23)	149	
Ministry of District Administration, Works, Lands and Agriculture	69,477	74,325	(4,849)	(1,196)	
Ministry of Education, Training and Employment	70,260	69,893	367	1,623	
Ministry of Health, Environment, Youth, Sports and Culture	11,459	9,563	1,896	(327)	
Ministry of Finance, Tourism and Development	Public Finance	16,769	17,114	(345)	(205)
	Financial Services	30,154	8,345	21,809	19,320
	Tourism and Development	42,048	41,464	584	400
Office of the Complaints Commissioner	753	620	133	219	
Portfolio of Internal and External Affairs	72,884	69,262	3,622	204	
Portfolio of the Civil Service	2,957	2,589	368	646	
Portfolio of Legal Affairs	6,098	6,056	42	355	

45. In considering the revenue generated the reader should be aware that majority of this is provided by Cabinet out of central funds (coercive revenues) rather than directly generated by the entity. With the exception of Financial Services the level of revenue funded by Cabinet is between 77% and 100% (See Appendix D for details).

46. Under section 37(2)(b) of the PMFL, *“A ministry or portfolio 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.”* It further states in section 41(1)(b) that *“A ministry or portfolio shall not – incur, in any financial year, entity expenses exceeding in total entity revenue in that year, unless otherwise agreed in writing by the Minister of Finance.”*
47. Under the output system, it is possible that M&Ps will report a deficit. Over time though, if outputs are costed effectively and the full cost is billed by all M&Ps this should not be the case year on year, and they should be reporting at least a break even position over time. Unfortunately, costing systems in the M&Ps are not well developed with some M&Ps billing 1/12th of their annual budget on a monthly basis and not the actual cost of outputs. This leads to a significant risk that M&Ps are actually incurring greater expenses than planned in delivering their budgeted outputs and approved by the Legislative Assembly. Six entities reported a deficit in 2011/12 and none were agreed in writing by the Minister of Finance as required by the PMFL.
48. The surplus/deficit position of each entity cannot be considered in isolation. They also need to be considered in the context of the appropriations authorized by the Legislative Assembly. The reporting of a deficit is a potential mechanism for circumventing the control of public expenditures exercised by the Legislative Assembly through their Appropriation Laws.

SPENDING AGAINST LEGAL AUTHORITY (APPROPRIATIONS)

49. Under the terms of the PMFL, there is a requirement for the Legislative Assembly to provide legal authority for the Government to undertake activities and spend public resources. This is done through the Appropriation Law passed after the budget of the Government has been agreed to. Without the passage of this Law the Government has no authority incur expenditure and therefore carry out its work.
50. This is a fundamental control in the accountability framework for the use of public money which should enable the Legislature to hold the Government accountable for level of public resources it plans to spend in delivering its programs and services, and subsequently what it actually spent public money on compared to what was legally authorized through the Appropriation Law.
51. For M&Ps the funds that they are provided by Cabinet for the delivery of outputs (Outputs to Cabinet) are those that are subject to Legislative control through the Appropriation Laws each year. Therefore control is exercised over the revenue that M&Ps request from Cabinet, and each entity should not request revenue from Cabinet greater than the levels approved by the Legislature in the relevant annual Appropriation Law in order to meet their expenses. Therefore it is currently possible for a M&P to incur expenditures greater than the revenues its requests from Cabinet, and thus report a deficit, but also remain within its appropriation limits.

52. Through our audits, we have determined that the reporting by government back to the Legislative Assembly makes it very challenging for the Legislators to obtain assurance that the spending limits have been complied with and that the laws passed by the Legislative Assembly have been respected.
53. Each M&P has a significant number of appropriations or legal limits with which they should comply and it is not possible, because of the poor form of reporting and supporting systems, to reliably determine how many of these were exceeded. However at an entity level eight out of 15 M&Ps have reported through their financial statements that they breached the overall appropriation limits passed by the Legislative Assembly. Exhibit 4 provides details of M&P performance against the total appropriations.

Exhibit 4: M&Ps 2011-12 Performance against Appropriations (Original Budget)

Entity	Outputs to Cabinet (\$'000)	Original Budget (\$'000)	Variance (Original vs Actual (\$'000))	Final Budget (\$'000)	Variance (Final vs Actual (\$'000))	
Cabinet Office	10,579	10,637	58	10,579	0	
Director of Public Prosecution	2,647	2,570	(77)	2,647	0	
Information Commissioners Office	575	575	0	575	0	
Judicial Administration	4,871	4,754	(117)	4,871	0	
Ministry of Community Affairs, Gender and Housing	12,666	13,291	625	13,085	419	
Ministry of District Administration, Works, Lands and Agriculture	53,248	55,388	2,140	55,962	2,714	
Ministry of Education, Training and Employment	68,407	69,089	682	68,784	377	
Ministry of Health, Environment, Youth, Sports and Culture	9,973	9,769	(204)	9,993	20	
Ministry of Finance, Tourism and Development	Public Finance	14,903	14,318	(585)	14,903	0
	Financial Services	5,543	6,042	499	5,944	401
	Tourism and Development	41,905	41,728	(177)	42,886	981
Office of the Complaints Commissioner	753	737	(16)	753	0	
Portfolio of Internal and External Affairs	64,472	62,363	(2,109)	65,582	1,110	
Portfolio of the Civil Service	2,937	2,973	36	2,955	18	
Portfolio of Legal Affairs	5,183	4,967	(216)	5,183	0	

54. The Legislative Assembly subsequently passed a Supplementary Appropriation Law for 2011/12 in September 2013 which attempted to address the breaches and regularize the transactions of the M&Ps. However the Supplementary Appropriation Law passed in our view was for all intents and purposes meaningless as section 9(5) of the PMFL clearly states that *"all appropriations lapse at the end of the financial year to which the law by which the appropriation granted relates"*, in other words the Supplementary Appropriation needs to pass into law prior to end of the financial year to which it relates. Therefore for the eight entities in question the amounts billed to Cabinet in excess of those in the original Appropriation Law were not legally provided for and any related transactions were irregular.

SUMMARY

55. Looking at the results reported in the M&P financial statements, it is my opinion that they do not present a clear picture of how each individual entity is performing and the resources being used. In other words, the entity financial statements in their current form do not provide the necessary information to demonstrate how government has collected and spent public resources or whether government has respected the limits set out by the Legislative Assembly. The main reasons for my opinion are:

- the artificial split of entity and executive transactions with M&P financial statements only reporting entity transactions;
- the unclear relationship between M&Ps surplus/deficit and their performance against the appropriation authorised by the Legislative Assembly, the inconsistent treatment across M&Ps, and the ability to basically undermine the authorized appropriations through reporting a deficit;
- reporting against the appropriations is presently not well developed and therefore it is challenging for legislators to effectively determine whether Government and its entities are complying with the legal authority provided for incurring expenditure;
- appropriations authorised under the Appropriation Law are measured on what is billed to cabinet, rather than the actual costs of delivering the services; and
- the comparability of the actual and budget figures reported in the financial statements as the budgets are at least operationally being treated on a partial cash basis rather than an accruals basis as required under the PMFL. For example, M&Ps are being provided cash for non-cash budgets and transactions such as depreciation.

56. As a result, I have made it known to senior government officials that they need to consider making changes to the current financial reporting framework to provide for more effective reporting of performance of the individual entities and providing effective accountability and transparency in the use of public resources. Without any changes that simplify the legislation or the development of considerable systems and practices that would ensure compliance with the legislation in its current form, no one will ever know how government utilizes public resources.

ENTITY QUALIFICATIONS

57. To repeat what was said earlier in the report, the purpose of my audits of entity financial statements is to report to the Legislative Assembly on the fairness of presentation of the financial results and the extent to which those statements are prepared in accordance with the accounting standards being used by Government. Since the introduction of the requirement for M&Ps to prepare financial statements in 2004-05, the objective for government has been to prepare financial statements that meet the stated requirements and obtain audit opinions that are unqualified.
58. Exhibit 5 and 6 below show that there are a variety of reasons for the continuing audit opinion qualifications. They also show that the number of reasons for which financial statements were qualified has decreased from 2010-11 to 2011-12.

Exhibit 5: Reasons for Ministry and Portfolio Qualifications – 2010-11

	Accounts Receivable	Inventories	Property, Plant and Equipment	Accounts Payable	Other Payables and Accruals	Net Worth	Revenues	Depreciation	Comparatives	Cash/Imprests	Prepayments	Surplus Payable	Supplies and Consumables	Foreign Exchange	Related Party Transactions	Cash Flow	Warehousing
Cabinet Office																	
Ministry of Community Affairs, Gender and Housing																	
Ministry of District Administration, Works, Land and Agriculture																	
Ministry of Education, Training and Employment																	
Ministry of Health, Environment, Youth, Sports and Culture																	
MFTD – Financial Services																	
MFTD – Public Finance																	
MFTD - Tourism and Development																	
Judicial Administration																	
Office of the Complaints Commissioner																	
Portfolio of the Civil Service																	

Exhibit 6: Reasons for Ministry and Portfolio Qualifications – 2011-12

	Accounts Receivable	Inventories	Property, Plant and Equipment	Accounts Payable	Other Payables and Accruals	Net Worth	Revenues	Depreciation	Cash/Imprests	Prepayments	Surplus Payable	Supplies and Consumables	Foreign Exchange	Related Party Transactions	Cash Flow	Warehouseage	Loss on Disposal
Cabinet Office																	
Ministry of Community Affairs, Gender and Housing																	
Ministry of District Administration, Works, Land and Agriculture *																	
Ministry of Education, Training and Employment																	
Ministry of Health, Environment, Youth, Sports and Culture																	
MFTD – Financial Services																	
MFTD – Public Finance																	
MFTD - Tourism and Development																	

59. Appendix E provides details on the specific issues that resulted in qualifications for each individual entity along with any “matters of emphasis” or “other matters” that I included in my audit reports on the financial statements of individual entities. “Matters of emphasis” or “other matters” are issues I believe needed to be brought to the attention of the reader without further qualifying my opinion.

60. There have been four qualification issues and one “other matter” that were prevalent over the two years:

- valuation and disclosure of property, plant and equipment;
- valuation and disclosure of accounts receivable, payables and accruals;
- presentation of net worth; and
- breaches of appropriation law limits.

61. **Valuation of property, plant and equipment:** The Government has not undertaken a revaluation exercise for its property, plant and equipment since 2001. In accordance with the Financial Regulations and International Public Sector Accounting Standards, a revaluation was required in the five preceding years to determine the fair value of the assets. Consequently, I was unable to determine the reliability and accuracy of the values of property, plant and equipment recorded in the financial statements for a number of M&Ps.
62. **Accounts receivable:** Six M&Ps were qualified in 2010-11 on accounts receivables due to a lack of supporting evidence, lack of provision for doubtful debts and inadequate internal controls. However for 2011-12 any issues relating to receivables were no longer sufficiently material to warrant a qualification for those M&Ps reported.
63. **Payables and accruals:** For four M&Ps in 2010-11, I was unable to obtain sufficient and appropriate audit evidence to determine whether the account balances for trade payables, other payables and accruals disclosed in the financial statements were free of material misstatements. In 2011-12, there were two Ministries that were qualified on accruals due to significant errors in the accounting treatment of payables and accruals balances.
64. **Net worth:** Significant issues arising on other balances such as property, plant and equipment, along with issues relating to opening balance meant that we were unable to conclude as to whether the net worth for a number of entities was presented fairly.
65. **Other Matter – Breaching Appropriation Law Limits:** A number of entities billed Cabinet for outputs in excess of the limits set in the appropriation laws. These limits represent the legal maximum that entities can spend, and are the fundamental authority and control of the Legislative Assembly on the spending of public money by the Government.

GOVERNANCE AND INTERNAL CONTROL ISSUES

66. Audits of the financial statements are designed 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 and wrongdoing.
67. Through our audit work, we have identified a number of significant concerns around governance, internal control, and financial management and reporting. Whilst these issues have not ultimately impacted on the opinions I have issued on the financial statements, they have the potential to have a significant negative impact on the effective and efficient use of resources, and the achievement of results.
68. We have reported these matters to Chief Officers at the conclusion of our audits through individual *“Reports to those Charged with Governance (Governance Reports)”* which are, or will be, posted on our website.
69. In the following paragraphs we highlight the more significant matters that we identified and which were common across M&Ps. In Appendix E we report further specific issues relevant to individual M&Ps audits.

AUDIT SUBMISSION QUALITY ISSUES

70. As previously noted, all M&Ps made submissions to my Office by 31 August for both financial years in line with statutory timescales. However, the submissions lacked adequate support for account balances and transactions resulting in significant additional audit work and changes to the amounts reported in the submissions. Whilst there has been significant improvement, particularly for the 2011-12 financial statements, this problem continues to be an issue for a number of entities. In particular the Ministry of District Administration Works, Land and Agriculture (DAWLA) and Tourism and Development. For DAWLA for the years ending 30 June 2011 and 2012 we eventually had to issue a disclaimer of opinion after significant efforts were made to obtain appropriate and sufficient supporting documentation; something that should never prevent a timely audit. The lack of supporting documentation is also the reason for a number of qualification points across M&Ps.
71. In response to these problems, the Treasury Department in MFTD has been developing a standardized submission package with templates for completion to provide:
- assurance to management that the balances and transactions they are reporting in their financial statements are presented fairly; and
 - appropriate documentation to support the efficient audit of the financial statements.

72. The results of these efforts were seen with the submission for the 2011-12 financial statements which included more supporting documentation. We have been informed that the instructions and submission package will continue to be improved in future years and that it will be a priority of government to provide more complete and accurate information for audit.

INTERNAL CONTROL ENVIRONMENT

73. We would expect Government to have a robust internal control framework that provides management with assurance regarding:

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

74. Our risk assessment work indicated significant weaknesses in the internal control frameworks across M&Ps to the point where we believe management is unable to provide assurance in the areas noted above; a key responsibility they have been given in the PMFL.

75. The qualification matters on the M&P financial statements and the other matters discussed in this section and Appendix E highlight a significant number of internal control weaknesses in the entities we have audited. Many of the problems we have identified are remediable if the entities ensured their internal control frameworks were properly designed, implemented and operating effectively.

FINANCIAL ACCOUNTING IT SYSTEM (IRIS)

76. Our review of the information technology control environment for the financial accounting system, IRIS, identified significant risks and weaknesses in the internal control and security of the system. As a result there were significant risks to the effective, complete and accurate recording of transactions in IRIS.

77. The detailed results of our information technology audit have been provided to Government and we are currently planning to follow up this work and subsequently report our findings to the Legislative Assembly.

78. Through our individual audits of the M&Ps we found examples of issues with IRIS including: system weaknesses with accounts receivable, accounts payable, purchase orders and the fixed asset module; unreconciled accounts; and vendors with multiple active accounts.

HUMAN RESOURCES IT SYSTEM (HRIRIS)

79. We found that the HRIRIS system used by core government is not designed for and does not provide sufficient information for the government to completely account for personnel costs. As a result of these weaknesses, for example, records relating to employees that transfer from one department/ministry to another only have their current information available and their records in the previous entity are erased. Therefore, it is not possible to reconcile the salaries paid through HRIRIS to the amounts posted to the general ledgers, making it challenging for management to monitor transactions associated with employees being transferred and effectively prepare the personnel costs information for inclusion in the financial statements.

ROLE CONFLICT (TREASURY VS MINISTRY)

80. Our audit testing found transactions posted by the Treasury Department to the accounting ledgers of the individual M&Ps, without the knowledge of M&P's Chief Financial Officers. With responsibility for the financial reporting in their entities, the CFOs should have oversight of all financial transactions impacting their entities. This practice undermines the roles and responsibilities of the individual M&Ps to prepare financial statements that present fairly their financial position and performance.

COMPLIANCE WITH ACCOUNTING STANDARDS AND CONCEPTS

81. The M&Ps are still having challenges implementing systems and procedures that ensure the effective application of certain basic accounting concepts. For example in a few M&Ps there are still challenges with the use of accrual accounting, resulting in transactions and balances being recorded in the wrong reporting period. As a result the level of adjustments required to certain M&P financial statements to correct errors identified through the audit are still significant.

82. While the PMFL requires the Government to account for its transactions and prepare financial statements in accordance with the International Public Sector Accounting Standards (IPSAS), we found areas where the accounting standards are not being complied with fully, and others where improvement are still required to the disclosures to enable a user of the financial statements to properly understand them.

FIXED ASSETS REGISTERS

83. A number of M&Ps continue to have significant issues with their assets registers and the effective recording of their assets. Issues identified include:

- missing or incomplete fixed asset registers;
- inconsistent asset recognition criteria;
- lack of or limited assessments of assets for valuation and possible impairment; and
- weak or limited management of assets including ensuring their existence.

RECORDING OF TIME AND LEAVE ENTITLEMENTS

84. In many M&Ps, we identified weaknesses with respect to the management of leave, compensatory time and the use of the time recording system. For example, we have identified the following issues in our audits:

- employees reviewing and approving their own time sheets;
- lack of effective oversight of time recording by senior management;
- incomplete, unsigned and unauthorized leave records;
- buildup of large leave and compensatory time balances;
- negative compensatory time (not allowed under current rules); and
- inaccuracies in the calculation of leave balances.

85. These observations raise concerns over the accuracy of leave balances and the data in the time recording system that is used for financial reporting purposes. As well, there is an increased risk of fraud or error in the management of employee attendance and pay.

MANAGEMENT OF ACCOUNTS RECEIVABLE

86. A number of ministries receive revenue from external sources by charging fees for certain services. There are times when the fees are not paid at the time when services are provided resulting in outstanding amounts (accounts receivable) that the Government must collect. We found that a significant number and value of these accounts receivable are outstanding beyond 90 days, with significant balances that are outstanding for over a year. While we did not do any detailed work on the efforts made by M&Ps to collect these amounts, we have raised concerns over the effective management of accounts receivable and the risk of lost revenue to the Government in these entities.

RELATED PARTIES

87. International Public Sector Accounting Standards require the identification of transactions with related parties and disclosure of related party transactions and outstanding balances in the financial statements. Related parties are individuals and companies that conduct business with the entities but which also exercise control or influence over the entities. The accounting standard ensures that the entity's financial statements contain the disclosure necessary to draw attention to the possibility that its financial position and financial performance may have been affected by business conducted with related parties, thus distorting the true financial health of the entity.
88. We found that M&Ps did not have effective systems in place to identify, account for or disclose related party relationships and transactions for Ministers and senior management to comply with the requirements of the accounting standards and the principles of good governance for managing conflicts of interests.
89. In response to this finding, M&Ps retrospectively requested and obtained the appropriate declarations on any related party interests for the reporting period. However, this does not mitigate the risks of senior management and Ministers from conducting inappropriate business with Government in the first instance. We have therefore made strong recommendations to M&Ps to improve their management practices with regard to conflicts of interests and ensuring compliance with the accounting standards and mitigating the risks of carrying out inappropriate business.

CONCLUSION

90. This report provides a summary of our audits of the ministries, portfolios and offices of the Cayman Islands Government for 2010-11 and 2011-12. Whilst I continue to see improvements in the quality and timeliness of the financial statements for these entities a lot more work is required before effective financial management and accountability for the use of public resources is restored. In particular I have significant concerns about:

- the capacity in DAWLA and Tourism and Development to present reliable and credible financial statements for audit;
- the leadership, organization and use of human resources in the financial function;
- the implementation, operation and monitoring of proper internal controls and practices to protect public resources from being abused; and
- the effectiveness of the current financial reporting framework to provide transparency in the use of public funds.

91. There remains considerable room for improvement in the governance, internal controls and financial management of most entities. Senior management across government is responsible for the financial management of their entities and putting in place control systems to enable the effective stewardship of public resources and protect them from waste and abuse. There continues to be a lack of due regard by senior officials for ensuring that appropriate systems are in place exposing public funds to risks of waste and misuse.

92. The government needs to seriously consider how it organises itself to effectively manage its financial resources, and provide strong and effective leadership to the financial function. A number of matters I have raised in the conduct of my audits are very significant and could effectively undermine the credibility of the government.

93. I strongly recommend that the Legislative Assembly take note of my findings in this report and act promptly to ensure senior officials take action to mitigate the risks and opportunities for loss or abuse in the use of public resources.



Alastair Swarbrick MA(Hons), CPFA
Auditor General
George Town, Grand Cayman
Cayman Islands

8 October 2014

APPENDIX A – STATUS OF THE 2011-12 AUDITS

Entity		Date Audit Completed or Progress	Audit Opinion	Tabled in the Legislative Assembly
Cabinet Office		31 October 2012	Qualified	10 December 2012
Director of Public Prosecution		30 January 2013	Unqualified	11 December 2013
Information Commissioners Office		31 October 2012	Unqualified	18 November 2013
Judicial Administration		31 October 2012	Unqualified	
Ministry of Community Affairs, Gender and Housing		25 June 2013	Qualified	18 November 2013
Ministry of District Administration, Works, Lands and Agriculture		12 August 2014	Disclaimed	
Ministry of Education, Training and Employment		18 February 2014	Qualified	9 April 2014
Ministry of Finance, Tourism and Development	Public Finance	3 February 2014	Qualified	9 April 2014
	Financial Services	28 June 2013	Qualified	18 November 2013
	Tourism and Development	29 November 2013	Adverse	
Ministry of Health, Environment, Youth, Sports and Culture		31 October 2012	Qualified	15 March 2013
Office of the Complaints Commissioner		31 October 2012	Unqualified	18 November 2013
Portfolio of the Civil Service		31 October 2012	Unqualified	10 December 2012
Portfolio of Internal and External Affairs		23 September 2014	Qualified	
Portfolio of Legal Affairs		16 November 2012	Unqualified	

APPENDIX B – STATUS OF THE 2010-11 AUDITS

Entity		Date Audit Completed or Progress	Audit Opinion	Tabled in the Legislative Assembly
Cabinet Office		31 October 2011	Qualified	19 November 2012
Judicial Administration		23 November 2011	Qualified	4 April 2012
Information Commissioners Office		31 October 2011	Unqualified	4 April 2012
Ministry of Community Affairs, Gender and Housing		8 May 2012	Qualified	5 November 2012
Ministry of District Administration, Works, Lands and Agriculture		28 September 2012	Disclaimed	28 February 2014
Ministry of Education, Training and Employment		14 January 2013	Qualified	15 March 2013
Ministry of Financial Services, Tourism and Development	Public Finance	8 October 2013	Qualified	28 February 2014
	Financial Services	28 June 2013	Qualified	18 November 2013
	Tourism and Development	30 June 2013	Adverse	9 April 2014
Ministry of Health, Environment, Youth, Sports and Culture		7 May 2012	Qualified	11 December 2013
Office of the Complaints Commissioner		15 June 2012	Qualified	10 December 2013
Portfolio of the Civil Service		23 April 2012	Qualified	19 November 2012
Portfolio of Internal and External Affairs		7 May 2014	Qualified	
Portfolio of Legal Affairs		16 January 2012	Unqualified	4 April 2012

APPENDIX C - AUDIT OPINION DEFINITIONS

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

- **Unqualified** - The information contained in 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 – SUPPORTING FINANCIAL ANALYSIS

Table 1: M&P Expenses Trend Analysis over the period 2009-10 to 2011-12

Entity	2009-10 (\$'000)	2010-11 (\$'000)	2011-12 (\$'000)	Variance over 3 years (\$'000)	Original Budget 2011-12 (\$'000)	Variance (2012 Actual vs original Budget (\$'000)	
Cabinet Office	13,481	12,081	14,679	(1,198)	11,916	(2,763)	
Director of Public Prosecution	N/A	N/A	2,634	N/A	2,570	(64)	
Information Commissioners Office	N/A	614	599	15	575	(24)	
Judicial Administration	4,837	4,856	5,244	(407)	4,754	(490)	
Ministry of Community Affairs, Gender and Housing	13,876	13,308	12,767	1,109	13,291	524	
Ministry of District Administration, Works, Lands and Agriculture	64,175	63,839	74,325	(10,150)	72,081	(2,244)	
Ministry of Education, Training and Employment	68,019	62,965	69,893	(1,874)	69,523	(370)	
Ministry of Health, Environment, Youth, Sports and Culture	11,368	9,794	9,563	1,805	9,779	216	
Ministry of Finance, Tourism and Development	Public Finance	18,889	17,483	17,114	1,775	16,899	(215)
	Financial Services	N/A	7,994	8,345	406	9,289	944
	Tourism (and Commerce)	50,215	39,164	41,464		42,991	1,527
Office of the Complaints Commissioner	673	630	620	53	737	117	
Portfolio of Internal and External Affairs	69,639	67,880	69,262	377	68,264	(998)	
Portfolio of the Civil Service	3,050	2,626	2,589	461	2,973	384	
Portfolio of Legal Affairs	7,865	7,833	6,056	1,809	6,132	76	

The expenditure trend over the 3 years from 2010 to 2012 show for most M&Ps a clear downward trajectory in the level of expenses being incurred with four exceptions: Cabinet Office; Judicial Administration; DAWLA; and METE.

The METE reported a significant decrease in expenses between 2010 and 2011. However in 2012 it reported expenses at a level greater than 2010, and 11% greater than in 2011 due to the reinstatement of the 3.2% cost of living pay award, the recruitment of teachers, an additional \$2.4m in depreciation being charged as new school assets came on line and \$1m in litigation costs.

For DAWLA, we are unable to provide any form of meaningful analysis due to the fundamental issues with underlying information and the fact we have not been able to conduct an audit of the financial information.

Table 2: M&P 2011-12 Revenue Analysis

Entity		Outputs to Cabinet (\$'000)	Other Sources (\$'000)	Total Revenue (\$'000)s	% Revenue Cabinet Funded (\$'000)
Cabinet Office		10,579	1,401	11,980	88.3
Director of Public Prosecution		2,647	60	2,707	97.8
Information Commissioners Office		575	0	575	100.0
Judicial Administration		4,871	51	4,922	99.0
Ministry of Community Affairs, Gender and Housing		12,666	78	12,744	99.4
Ministry of District Administration, Works, Lands and Agriculture		53,248	16,229	69,477	76.6
Ministry of Education, Training and Employment		68,407	1,853	70,260	97.4
Ministry of Health, Environment, Youth, Sports and Culture		9,973	1,486	11,459	87.0
Ministry of Finance, Tourism and Development	Public Finance	14,903	1,866	16,769	88.9
	Financial Services	5,543	24,611	30,154	18.4
	Tourism and Development	41,905	143	42,048	99.7
Office of the Complaints Commissioner		753	0	753	100.0
Portfolio of Internal and External Affairs		64,472	8,412	72,884	88.5
Portfolio of the Civil Service		2,937	20	2,957	99.3
Portfolio of Legal Affairs		5,183	915	6,098	85.0

APPENDIX E – INDIVIDUAL ENTITY REPORTING

1. This appendix provides details of the specific issues identified at the M&Ps through our audits. These are categorized under two headings:
 - **Audit Report:** Provides details of any qualifications or other matters included in the Audit Report for each M&P; and
 - **Governance Report:** Provides details of governance and internal control issues reported to those charged with governance in our ISA260 (Governance) Report. The common issues across M&Ps that have been reported in the chapter “*Governance and Internal Control Issues*” have not generally been repeated. In this section we have concentrated on other issues reported in the Governance reports related specifically to the individual entities, and then only those that are considered more significant and of potential interest to the Public Accounts Committee.
2. If there is nothing reported under either of these headings for an entity this indicates that we have not identified any significant matters to report.

CABINET OFFICE

AUDIT REPORT

3. For both the years ended 30 June 2011 and 30 June 2012, the financial statements of the Cabinet Office received a qualified opinion in respect of property, plant and equipment. I was unable to confirm satisfactorily the completeness, existence and valuation of property, plant and equipment amounting to \$2.3m for the year ended 30 June 2012 (30 June 2011: \$5m) on the statement of financial position as the Cabinet Office did not maintain proper records.
4. For the year ended 30 June 2011, I qualified my opinion on four other issues in addition to the qualification on property, plant and equipment. I was unable to:
 - satisfactorily confirm the validity, accuracy and existence of **accounts receivable** amounting to \$10.7m due to the lack of a reasonable provision for doubtful accounts and confirmation that the amounts were recorded on the books of the debtors;
 - carry out satisfactory audit procedures to obtain reasonable assurance for the accuracy of the **inventory** and related expense accounts due to inadequate supporting documents;
 - confirm satisfactorily that the amount of \$8.3m reported as **net worth** on the statement of financial position was fairly stated because of the lack of adequate records on the beginning balance amounting to \$2.6m relating to the 2005-06 opening balance; and

- obtain reasonable assurance on the completeness of **sale of goods and services** due to an accounting system limitation. The magnitude of this observation to the statement of financial performance could not be determined due to the limitation in generating the required information from the system.

DIRECTOR OF PUBLIC PROSECUTIONS

AUDIT REPORT

5. The Office of the Director of Public Prosecutions was required to prepare financial statements for the first time for the year ended 30 June 2012. While I did not qualify my opinion on the financial statements, I included one matter of emphasis in my audit report.
6. The entity billed Cabinet for outputs greater than authorized in the Appropriation Law by \$77k and thus undertook irregular transactions. These additional billings were included in a Supplementary Appropriation Bill. However as at 30 June 2012 the Bill had not been presented to the Legislative Assembly and passed into law as required by the PMFL. A Supplementary Appropriation Bill was presented to the Legislative Assembly and passed into Law in September 2013. However as this was subsequent to the year end and the certification of the financial statements in our opinion the billings to Cabinet for outputs above the original appropriations were incurred without the requisite legislative authority.

INFORMATION COMMISSIONERS OFFICE

GOVERNANCE REPORT

7. We informed the ICO that there are a number of control weaknesses that need to be addressed to preclude the risk of error and fraud from occurring in the future. Whilst individually they were not significant, in totality they indicate a need for improvement to the internal control and financial accounting environment, which may be challenging given the very limited resources available to the Office.

JUDICIAL ADMINISTRATION

AUDIT REPORT

8. While I did not qualify the opinion on the financial statements for the year ended 30 June 2012, I included one matter of emphasis in my audit report. The entity billed Cabinet for outputs greater than authorized in the Appropriation Law by \$117k and thus undertook irregular transactions. These additional billings were included in a Supplementary Appropriation Bill. However as at 30 June 2012 the Bill had not been presented to the Legislative Assembly and passed into law as required by the PMFL. A Supplementary Appropriation Bill was presented to the Legislative Assembly and passed into Law in September 2013. However as this was subsequent to the year end and the certification of the financial statements in our opinion the billings to Cabinet for outputs above the original appropriations were incurred without the requisite legislative authority.
9. For the year ended 30 June 2011, the financial statements also received a qualified opinion in respect of **accounts receivable** in the amount of \$187,674, as documentation that clearly supported the existence of this amount could not be provided.

GOVERNANCE REPORT

10. The entity's management and accounting for **property, plant and equipment** was weak as it did not maintain proper asset registers. Whilst the issue was not significant enough during 2010-11 and 2011-12 to lead to a qualified opinion on the financial statements, it is a matter that requires attention to ensure that assets are managed effectively (not lost, stolen, improperly maintained, etc.).

MINISTRY OF COMMUNITY AFFAIRS, GENDER AND HOUSING

AUDIT REPORT

11. For the years ended 30 June 2011 and 30 June 2012, the Ministry's financial statements received qualified opinions. The opinion was qualified for the concerns I had about the valuation of property, plant and equipment. The Ministry had not valued its buildings in the last five years in accordance with the Financial Regulations and International Public Sector Accounting Standards. Therefore, I was unable to satisfactorily confirm that the amount recorded for property, plant and equipment was fairly stated in the financial statements.

GOVERNANCE REPORT

12. A number of matters were brought to the Ministry's attention. Three significant issues we identified which have not been already highlighted are :

- **Control of system generated transactions:** We noted that there were various "system generated accounts" in the accounting records with material transactions. Our audit tests found that management did not have proper control and oversight over these accounts as there were automatic postings done without involving the Ministry and no review done by senior management. The risks associated with transactions being posted outside the Ministry's internal accounting system are significant. As management does not have full control over these accounts, the opportunity for fraud and abuse is significant and it is impossible to ensure the financial statements represent a fair representation of the transactions carried out in the Ministry.
- **Funds being spent on abandoned building:** We noted during the audit for the year ending 30 June 2011 that the Ministry paid utilities and security expenses of approximately \$7k for the Joyce Hylton building. Further enquiry indicated that the building had been unoccupied for several years and had in fact been condemned by the Public Works Department and written off the books of the Ministry. During the year ending 30 June 2012 the Ministry resolved this matter and stopped making these payments.
- **Utilities expenses:** We found that there was no metering capacity for the utilities costs incurred by at the Flagship Building in 2010-11 and the Ministry was being invoiced on a formula which management could not understand or explain. The Ministry subsequently negotiated a new lease and will cease to occupy the Flagship Building starting in 2013-14.

MINISTRY OF DISTRICT ADMINISTRATION, WORKS, LANDS AND AGRICULTURE

AUDIT REPORT

13. For the years ended 30 June 2011 and 2012, I issued disclaimers of opinion on the Ministry's financial statements. We were not able to obtain sufficient and appropriate evidence to reach an opinion due to significant limitations in supporting documentation as well as material deficiencies in the internal control environment. There are a significant number of issues that led to this position. In the audit report we reported that we were unable to:

- obtain sufficient and appropriate audit evidence to determine whether the total account balances for **trade payables, other payables and accruals** disclosed in the financial statements were free of material misstatements. Due to the absence of this information, we were unable to satisfactorily confirm that the amount reported was fairly stated;

- satisfactorily confirm that the **property, plant and equipment** were fairly stated in the financial statements as the Ministry had not revalued its buildings in the last five years in accordance with the Financial Regulations and International Public Sector Accounting Standards. As a result we were also unable to determine whether the related **depreciation** (2011-12: \$2.4m) reflected in the financial statements was fairly stated;
- verify the completeness of the **accounts receivable** due to the inadequacies of the internal controls, which did not facilitate the sequential numbering of invoices and receipts;
- obtain assurance on the completeness of **other revenues** (2011-12: \$15.2m) due to system flaws which did not facilitate the sequential numbering of invoices; and
- to determine the accuracy and completeness of the **net worth** balance (30 June 2012: \$39.3m) due to the lack of supporting evidence as well as the other issues reported in the previous paragraphs which directly impact the net worth balance.

MINISTRY OF EDUCATION, TRAINING AND EMPLOYMENT

AUDIT REPORT

14. For the years ended 30 June 2011 and 30 June 2012, the Ministry's financial statements received qualified opinions as I was unable to satisfactorily confirm that the **property, plant and equipment** of \$224million (30 June 2011: \$188 million) was fairly stated as the Ministry had not revalued its buildings in the previous five years in accordance with the Financial Regulations and International Public Sector Accounting Standards. As a result I was also unable to:

- determine whether the related **depreciation** reflected in the financial statements was fairly stated; and
- satisfactorily confirm that the amount of \$260 million (30 June 2011: \$217 million) reported as **net worth** was fairly stated. This was also affected by the lack of adequate records on the opening balance.

15. The audit opinion for 30 June 2011 was also qualified in respect of two further matters. I was unable to satisfactorily confirm that the amount of \$424,000 reported as **trade receivables and debtors** due to other ministries exists and is collectible due to lack of adequate supporting evidence; and, management could not assert to the accuracy of the **accounts payable** balance in the amount of \$1.85 million due to an accounting system issue.

GOVERNANCE REPORT

16. A number of matters were brought to the Ministry's attention. Two significant issues we identified which have not been already highlighted are:

- **Receivables - collection of outstanding debts:** The collection of outstanding debts continues to be a challenge for the Ministry at 30 June 2012, with over \$465,000 (56%) of the \$835,000 outstanding for over one year. The receivables related mainly to unpaid school fees for expatriate government workers.

The Ministry has recorded an allowance for doubtful debts as at 30 June 2012 in the amount of \$752,000 representing 90% of the debt. In addition, the Ministry wrote off receivables amounting to \$390,000 relating to the inability to collect for prior financial years. At the time our audit was completed, there had not been any collection on the balances outstanding. We noted that a number of the debtors at 30 June 2012 had previously had debts provided for or written off and were still able to incur new balances.

- **Severance payment:** On the direction of the Deputy Governor an amount of \$153,886 was paid to a former employee of the ministry which was the equivalent to one year salary plus benefits. The amount was paid as an ex-gratia payment. The Personnel regulations only provides for a 3 month notice period. All ex-gratia payments, or amounts paid without statutory authority, must be approved by the Cabinet. The Ministry could not provide use with any evidence of such approval.

MINISTRY OF HEALTH, ENVIRONMENT, YOUTH, SPORTS AND CULTURE

AUDIT REPORT

17. For the years ended 30 June 2011 and 30 June 2012 the Ministry's financial statements received qualified opinions. For the year ended 30 June 2012 the Ministry's financial statements were issued an audit report within the statutory deadline of 31 October for the first time.

18. In both years I was unable to satisfactorily confirm that **property, plant and equipment** was fairly stated as the Ministry had not revalued its buildings in the previous five years in accordance with the Financial Regulations and International Public Sector Accounting Standards. As a result I was also unable to verify the amount presented in **net worth**.

GOVERNANCE REPORT

19. We have reported a number of significant matters for the attention of management. We highlight three matters not previously discussed:

- **Official travel and credit card payments:** In 2010-11 we found a number of credit card payments were only supported by a monthly credit card statement, and not by the actual invoices as required by the government credit card policy. These payments had been approved to avoid delays which would often result in late fees accruing on the cards. However the failure to comply with government policy and the lack of documentation increases the risk of fraud and the misuse of public funds.
- **Non-compliance with the Public Service Management Law:** We found two instances of employees in acting positions for longer than the maximum limit of one year prescribed by the Personnel Regulations. In one case, the individual had been in an acting capacity since February 2008.
- **Extended compulsory leave:** During 2010-11 and 2011-12, the Ministry continued to pay an employee who had been suspended from the service in 2009. The costs incurred over this period were over \$150k per annum including salary, pension and other benefits. We were not provided any reasonable explanation for the continuation of pay to this individual.

MINISTRY OF FINANCIAL SERVICES, TOURISM AND DEVELOPMENT

AUDIT REPORT

20. For the years ending 30 June 2011 and 30 June 2012, MFTD presented financial statements under three separate entities in MFTD. The three entities were:

- Financial Services;
- Public Finance; and
- Tourism and Development.

21. Under the PMFL, Ministries are required to present their financial statements in line with the presentation in the Annual Budget Statement (ABS). The ABS for 2010-11 presented the MFTD as one entity. We were informed that this was an administrative error and that it had been the intention for MFTD to be three separate entities, as was the case in the 2011-12 and 2012-13 ABS.

22. To be compliant with the PMFL, only one set of financial statements should have been presented for the Ministry for 2010-11. However, after discussion with Ministry we agreed to undertake separate audits for the three entities in the Ministry.

PUBLIC FINANCE

23. For the years ended 30 June 2011 and 30 June 2012, Public Finance's financial statements received a qualified opinion. I was unable to:

- satisfactorily confirm that **property, plant and equipment** was fairly stated as Public Finance did not revalue its buildings and leasehold improvements in the previous five years in accordance with the Financial Regulations and International Public Sector Accounting Standards. As a result we were also unable to verify the **depreciation** expense and the amount presented in **net worth** due to the uncertainties surrounding the value of the entity's property, plant and equipment; and
- verify the completeness of **Warehouse Fees** of \$938,000 for the year ended 30 June 2012 (30 June 2011: \$973,000) reported under the sale of goods and services, due to the lack of supporting documents.

24. Without further qualifying my opinion for 2011-12, I also highlighted that the total annual amounts incurred for four Output Groups exceeded the respective amounts approved in the appropriation law. As a result expenditures of \$585k had no legal authority from the Legislative Assembly.

FINANCIAL SERVICES

25. For the years ended 30 June 2011 and 30 June 2012 the Financial Services' financial statements received qualified opinions. The opinions for both years were qualified as I was unable to:

- satisfactorily confirm that **property, plant and equipment** was fairly stated as Financial Services did not revalue its buildings and leasehold improvements in the previous five years in accordance with the Financial Regulations and International Public Sector Accounting Standards. As a result we were also unable to verify the amount of **depreciation** expense reported;
- conclude on the accuracy of the surplus payable due to other uncertainties and the inability to support the contributed capital;
- verify the amount presented in **net worth** due to other uncertainties reported; and
- confirm that the entity's financial statements contain the disclosure necessary to draw attention to the possibility that its financial position and financial performance may have been affected by the existence of **related parties transactions**.

26. The financial statements were also qualified for the year ended 30 June 2012 in respect of the loss on disposals, as I was unable to obtain sufficient and appropriate evidence in order to verify the occurrence and accuracy of the loss on disposal of assets of \$172,000.

27. With respect to the financial statements for the year ended 30 June 2011 the opinion was further qualified as Financial Services had not reported prior year **comparative** figures as required by accounting standards; and, I was unable to validate the **cash flows** reported as I was unable to obtain sufficient and appropriate support.

TOURISM AND DEVELOPMENT

28. For the years ended 30 June 2011 and 30 June 2012 the Tourism and Development's financial statements received an adverse opinion. In my opinion for both years, because of the significance of the matters identified in our audits, the financial statements did not present fairly the financial position of Tourism and Development as at 30 June 2011 and 30 June 2012, and their financial performance and their cash flows for the year then ended in accordance with International Public Sector Accounting Standards. The adverse opinions for both years were based on eleven issues identified in the areas detailed in the following paragraphs.

29. The **cash and cash equivalents** balance presented in the financial statements includes bank accounts held locally and overseas. During the audit, I was unable to confirm the accuracy of the overseas imprest account cash balances of \$ 1.424 million.

30. I was unable to satisfactorily confirm that **property, plant and equipment** was fairly stated as Tourism and Development had not revalued its buildings and leasehold improvements for the previous five years in accordance with the Financial Regulations and International Public Sector Accounting Standards.

31. Furthermore for the year ended 30 June 2011, I received representations from management prior to the commencement of my audit to the effect that they could not provide the supporting documentation required to audit the **property, plant and equipment** account.

32. Due to the above noted issues, I could not determine if **property, plant and equipment** was fairly stated as at June 30, 2012 and June 30, 2011. As a result I was also unable to verify the amount of **depreciation** expense reported.

33. I was unable to confirm the **prepayments** balance was fairly presented in the entity's financial statements for 30 June 2012, due to transactions amounting to \$679,000 not being properly accounted for on an accrual basis as required by accounting standards, resulting in the understatement of the prepayments reported.

34. For the year ended 30 June 2011, I received representations from management prior to the commencement of our audit to the effect that they could not provide the supporting documentation required to audit the balances and transactions included in the entity's financial statements relating to **prepayments** of \$414,000.

35. I identified that amounts reported for the **accruals and other accounts payable** balance did not satisfy the criteria to be included as an accrual as required under accounting standards. Approximately \$587,000 for the year ended 30 June 2012 (30 June 2011: \$811,000) was not supported. In most cases, these accruals were done at year end for services yet to be delivered to the entity. As a result I concluded that the account balance was not fairly stated.
36. Included in the entity's **supplies and consumables** expenses were amounts which had not been properly accounted for on an accrual basis as required by accounting standards. I identified amounts totaling approximately \$1.626 million for the year ended 30 June 2012 (30 June 2011: \$1.1million) were not accounted for correctly. As a result I was unable to confirm that the overall balance was fairly stated.
37. Tourism and Development recorded a **foreign exchange** gain of \$207,000 for the year ended 30 June 2012 (30 June 2011: \$204,000). Accounting standards require that statement of financial performance items be translated at the prevailing exchange rate at the time of the transaction. However, the entity recorded expenses from the London and Canadian departments using the month end rates while the closing cash balances were not revalued. I did not receive an analysis to support the potential error in the accounts, as the total expenses recorded for the London and Canadian departments amounted to approximately \$3.4m for the year ended 30 June 2012 (30 June 2011: \$3.3m).
38. I was unable to confirm that the entity's financial statements contain the disclosure necessary to draw attention to the possibility that its financial position and financial performance may have been affected by the existence of **related parties transactions**.
39. I was unable to verify the cash flows reported on the **Statement of Cash Flows** as I was not able to obtain sufficient and appropriate support in order to validate the cash flows reported.
40. Management did not include a **surplus payable** in the accounts as required by accounting standards. Furthermore, due to the qualifications issued on the other areas I would also not have been able to conclude on the accuracy of any amount reported.
41. There were numerous matters concerning the **net worth** balance reported in the accounts which did not enable me to conclude as to whether the **net worth** was fairly stated. These included:
- the revaluation surplus had not been updated with the effects of revaluation;
 - the contributed capital balance for the year ended 30 June 2012 , which represents the equity investments into the entity by the Cayman Islands Government was reported on the statement of financial position in a negative amount of \$(8,345,000); and
 - the entity was unable to provide supporting work papers to fully support contributed capital balance for the year ended 30 June 2011.

42. In addition to the above matters the adverse opinion for the for the year ended 30 June 2011 was also based on the following matters:

- Tourism and Development did not properly disclose its prior year **comparative figures** within its financial statements as required by accounting standards;
- included in the **trade receivables** at year end was an amount of \$8.4m, which was subsequently reversed in the 2012 fiscal year. This amount was not a valid receivable as at 30 June 2011; and
- prior to the commencement of our audit, I received representations from management that they could not provide the supporting documentation required to audit the balances and transactions included in the entity's financial statements relating to **other receivables** and **trade payables**. Included in the **other receivables** balance were amounts that were outstanding for a significant period of time mainly from travel related claims which amounted to \$85,000. These balances were written off in the subsequent year. For **trade payables** supporting documentation could not be provided for the open purchase orders account balance of \$470,267.

GOVERNANCE REPORT

43. Our reports to those charged with governance for each of the three entities in MFTD catalogue a significant number of issues apart from those which were the basis for the respective qualified and adverse audit opinions highlighted above. The significance and sheer volume of the matters identified provide clear evidence of significant weaknesses in the internal control environment providing opportunities for mismanagement and abuse of public funds. We have summarized the internal control issues identified under a number of broad headings.

44. **Material financial control weaknesses:** We found a significant number of internal control weaknesses in nearly all the financial systems, including:

- poorly performed bank reconciliations;
- lack of segregation of duties for the processing of financial transactions e.g. purchase orders;
- inconsistent approval of invoices for payment with instances where there was no evidence of approval for payment, or where approval was made by unauthorized officials;
- poor cut-off procedures at period ends e.g. accruals recorded in the incorrect financial period;
- incorrect calculation of foreign exchange gains and losses;
- account balances not reconciled, reviewed or managed effectively;
- large write-offs of account balances without approval;
- significant unexplained variances for financial results; and
- general lack of evidence of monitoring and review by senior management that the internal controls of the organization are working effectively.

45. The totality of these individual weaknesses equates to a material weakness in the processing of financial transactions. The pervasive nature of these weaknesses resulted in a number of unresolved accounting differences across the MFTD entities. In addition to the risks of losses due to fraud and error, there is also a significant risk that management is using erroneous information for decision making and that inappropriate decisions are taken.
46. **Poor management of travel and hospitality expenditures:** We identified significant deficiencies in the management of travel and hospitality expenditures. These included:
- insufficient documentation to support travel expenses;
 - unexplained expenditures in relation to travel and Miami ground transport;
 - significant unsettled and unmanaged travel advances;
 - no clear business cases for undertaking official travel;
 - lack of support for credit card expenses; and
 - a lack of, or poor policies in regards to travel and hospitality expenses.
47. Apart from the fact that the information available to senior management is likely to be erroneous, the nature of these weaknesses results in a significant risk of losses due to fraud and error.
48. **Procurement rules disregarded:** We found significant weaknesses in how MFTD carried out procurement as well a number of instances of non-compliance with the financial regulations leading to a significant risk of fraud and abuse of public funds. We found the following instances of non-compliance:
- awarding of material contracts without any tendering;
 - evidence of break-up of contracts to avoid tendering;
 - the award of sole source contracts without appropriate business case or justification or support of value for money considerations; and
 - payment to contractors without signed contracts in place.
49. **Mismanagement of overseas tourism offices:** We found material weaknesses in the management of overseas tourism offices. Apart from the issues regarding overseas imprest accounts of the Tourism Department as reported above, we found the following significant internal control problems:
- bank accounts not effectively reconciled or reviewed;
 - a lack of segregation of duties relating to the processing of financial transactions;
 - significant number of accounting errors;
 - invoices paid without appropriate authorization;
 - lack of supporting documentation for transactions; and
 - lack of effective oversight by senior management of the activities in overseas offices.

50. The level of issues identified during our audit relating to the management of overseas tourism offices raises significant concerns about senior management in meeting their duties and responsibilities as set out in the PMFL and PSML.
51. As a result of the audit work performed by my Office in this entity, I have concluded that there is a serious deficiency in financial management and accounting capabilities and would hope that the current staffing situation be addressed on a priority basis.
52. **Management has failed to carry out its public duty** – The lack of due regard for the implementation and operation of reasonable controls across MFTD and the number of transgressions of the laws has led me to conclude that management has failed in its role to protect public funds and that they have disregarded their responsibility to uphold the Laws of the Cayman Islands.

OFFICE OF THE COMPLAINTS COMMISSIONER

AUDIT REPORT

53. While I did not qualify my opinion on the financial statements of the Office of the Complaints Commissioner for the year ended 30 June 2012 I did highlight one matter in my audit report. The entity billed Cabinet for outputs greater than authorized in the Appropriation Law by \$16k and thus undertook irregular transactions. These additional billings were included in a Supplementary Appropriation Bill. However as at 30 June 2012 the Bill had not been presented to the Legislative Assembly and passed into law as required by the PMFL. A Supplementary Appropriation Bill was presented to the Legislative Assembly and passed into Law in September 2013. However as this was subsequent to the year end and the certification of the financial statements in our opinion the billings to Cabinet for outputs above the original appropriations were incurred without the requisite legislative authority.
54. For the year ended 30 June 2011 the OCC's financial statements received a qualified opinion as I was unable to
- satisfactorily confirm that **property, plant and equipment** was fairly stated as I was not provided with a detailed fixed asset register which reconciled to the amounts recorded in the Statement of Financial Position. As a result I was also unable to confirm the **depreciation** expense was fairly stated;
 - to satisfactorily confirm that **employee entitlement** accruals of \$7,630 and the **accounts payable** accrual of \$4,858 were fairly stated as I was not provided with adequate supporting documentation; and
 - conclude that the total **net worth** of \$143k was fairly stated as a result of the other qualifications on the financial statements.

PORTFOLIO OF THE CIVIL SERVICE

AUDIT REPORT

55. For the year ended 30 June 2012 I did not qualify my opinion on the Portfolio's financial statements. However for the year ended 30 June 2011 the Portfolio's financial statements received a qualified opinion. The opinion was qualified in respect of **accounts receivable** as I was unable to satisfactorily confirm as to the accuracy, validity and existence of the accounts receivable balance amounting to \$1.196m due to the lack of a reasonable provision for doubtful accounts and confirmation that the amounts were recorded on the books of the debtors.

GOVERNANCE REPORT

56. In our reports to those charged with governance we have reported a number of matters to enhance internal control and financial management including:

- **Inadequate procedures for the collection of debts due to the Portfolio:** An amounts of \$852,000 receivable from Cabinet Office has been on the books for six years as at 30 June 2012; and
- **Assets transferred to other government departments without controls in place:** The Portfolio transferred assets to other government Departments during the period. There was no evidence of the items being transferred and accounted for by the receiving departments. Good internal controls over Property, Plant and Equipment require that all disposals of assets should be properly authorized and documented.

PORTFOLIO OF INTERNAL AND EXTERNAL AFFAIRS

AUDIT REPORT

57. For the years ended 30 June 2011 and 30 June 2012 the Portfolio's financial statements received qualified opinions. For both years as I was unable to:

- obtain assurance regarding the completeness, existence, accuracy and valuation of the **property, plant and equipment** balances of \$31,497,000 and \$33,760,000 as at 30 June 2011 and 2012 respectively, due to the lack of supporting documentation. As a result I was also unable to conclude that the **depreciation expense** recorded was fairly stated;
- confirm that the net worth balance was fairly stated due to opening balances being qualified in prior years, as well as the issues noted above; and

58. For the year ending 30 June 2011 the statements were further qualified as I was unable to verify:
- the accuracy of **employee entitlements** due to lack of adequate record keeping of accrued annual leave records and variances between amounts recorded in the documentation provided by the Portfolio and the annual leave records. As a result, I was unable to confirm the balance of \$3,427,000 was fairly stated;
 - gain assurance as to the accuracy of the classification of the cash flows as there was no comprehensive schedule to support the classification of items in the **cash flow statement**; and
 - the **gains/losses on disposal/revaluation** of property, plant and equipment of \$428,000.
59. Without qualifying my opinion we also highlighted one other matter in our audit reports for both years in respect of non-compliance with the Police Regulations. The housing allowance paid by the RCIPS was at least double the amount set out in the Police Regulations. Although evidence was produced to support approval for an increase in allowances for RCIPS officers, the evidence presented was not specific enough and the Police Regulations remained unchanged resulting in irregular payment of allowances being made.

GOVERNANCE REPORT

60. A number of other matters were brought to the attention of the Portfolio, the majority of which were not individually significant. The matters I would highlight are:
- finger printing equipment was purchased for the Immigration Department at a cost of \$650k, but has never used;
 - there are a significant number and dollar amount of legal claims outstanding;
 - deficiencies in the Portfolio's **register of fixed assets** and its management;
 - **unexplained cash balances** of \$187k recorded in the general ledger;
 - significant **variances between annual leave records and leave accrued** in the financial records, leading to projected overstatement in leave accrued of \$62k;
 - a number of instances of employees in **acting positions** for longer than the maximum limit of one year prescribed by the Personnel Regulations. In two cases the individuals involved had been in an acting capacity for at least two years;
 - instances of **personnel costs being processed outside the Human Resource Management System** in contravention of the personnel regulations; and
 - difficulties in verifying the **building and site lease expenses** due to lack of adequate documentation including lease agreements, mis-posting of items in the lease account and inconsistency in the treatment of lease transactions.

PORTFOLIO OF LEGAL AFFAIRS

AUDIT REPORT

61. For the years ended 30 June 2011 and 30 June 2012 I did not qualify my opinion on the financial statements of the Portfolio of Legal Affairs. However for the year ended 30 June 2012 I did highlight one matter in my audit report.
62. The entity billed Cabinet for outputs greater than the authorized amount in the Appropriation Law by \$216k and thus undertook irregular transactions. These additional billings were included in a Supplementary Appropriation Bill. However as at 30 June 2012 the Bill had not been presented to the Legislative Assembly and passed into law as required by the PMFL. A Supplementary Appropriation Bill was presented to the Legislative Assembly and passed into Law in September 2013. However as this was subsequent to the year end and the certification of the financial statements in our opinion the billings to Cabinet for outputs above the original appropriations were incurred without the requisite legislative authority.

GOVERNANCE REPORT

63. In our reports to those charged with governance, we have made recommendations for a number of matters to enhance internal controls and financial management practices. I am highlighting two matters below:

- **Poor accounting for capital assets:** The Portfolio did not maintain asset registers required for the effective management and accounting of capital assets. Whilst the issue was not significant enough to lead qualified opinions on the financial statements because of the amount of assets under management, it is an area that should be addressed to ensure that assets are properly protected and reported in the future; and
- **Credit card payments made without proper support:** We found credit card payments relating to the Law School that included hotel accommodations, restaurant bills, hospitality and other expenses that were not supported by any receipts or invoices. As a result, it was not possible to ascertain whether these payments were legal expenditures of the Portfolio.

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