



## **OFFICE OF THE OMBUDSMAN**

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**Report to those charged with governance on the 2024 audit**

**August 2025**

*To help the public service  
spend wisely*

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# REPORT TO THOSE CHARGED WITH GOVERNANCE

## INTRODUCTION

1. We have completed our audit of the 31 December 2024 financial statements of the Office of the Ombudsman (the “Entity”). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Entity in sufficient time to enable appropriate action. The matters we are required to communicate under ISAs include:
  - Auditor’s responsibilities in relation to the audit
  - the overall scope and approach to the audit, including any expected limitations, or additional requirements
  - relationships that may bear on our independence, and the integrity and objectivity of our staff
  - expected modifications to the audit report
  - significant findings from our audit
2. This report sets out for the consideration of those charged with governance those matters arising from the audit of the financial statements for 2024 that we consider are worthy of drawing to your attention.
3. This report has been prepared for the sole use of those charged with governance and we accept no responsibility for its use by a third party. Under the Freedom of Information Act (2021 Revision) it is the policy of the Office of the Auditor General to release all final reports proactively through our website: [www.auditorgeneral.gov.ky](http://www.auditorgeneral.gov.ky).

## AUDITOR’S RESPONSIBILITIES IN RELATION TO THE AUDIT

### AUDITOR’S RESPONSIBILITY UNDER INTERNATIONAL STANDARDS ON AUDITING

4. ISAs require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters and this report includes only those matters of interest which came to our attention as a result of the performance of our audit.

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## RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

5. Management's responsibilities are detailed in the engagement letter signed by management on 13 September 2024 to which this engagement was subject. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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## OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS:

6. While we have no responsibility to perform any audit work on other information, including forward looking statements containing audited financial statements, we have read the other information contained in the Entity's annual report to consider whether such information is materially consistent with information appearing in the financial statements or our knowledge of the operations of the Entity. We have not reviewed any other documents containing the Entity's audited financial statements.

## CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT

7. Information on the integrity and objectivity of the Office of the Auditor General and audit staff, and the nature and scope of the audit, were outlined in the engagement letter presented to the Ombudsman and follow the requirements of the ISAs. We are not aware of any impairment to our independence as auditors.

## AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATION

8. We have issued an unmodified auditor's report on the 2024 financial statements.
9. A summary of audit adjustments made to the financial statements is attached in **Appendix 1**. There were no uncorrected material misstatements identified.
10. As part of the completion of our audit we obtained written representations from management on aspects of the accounts and judgments and estimates made. These representations were provided to us on 4 April 2024.

## SIGNIFICANT FINDINGS FROM THE AUDIT

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### SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Entity's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Entity to make accounting estimates and judgments about accounting policies and financial statement disclosures. We are, however, not aware of any new or controversial accounting practices reflected in the Entity's financial statements.

12. Details of any significant findings from the audit are included in **Appendix 2** along with management's response.

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#### MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. There were matters which required management to make significant judgments or which required significant estimates such; loss allowance for doubtful debts, impairment and depreciation of property, plant and equipment and amortization of intangible assets.

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#### GOING CONCERN DOUBTS

14. As a result of our audit, we did not become aware of any material uncertainties related to events and conditions that may cast significant doubt on the Entity's ability to continue as a going concern.

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#### SIGNIFICANT AND OTHER DEFICIENCIES IN INTERNAL CONTROL

15. We identified significant deficiencies in internal control as part of our audit. Details of these deficiencies are included in **Appendix 2** along with management's response.

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#### FRAUD OR ILLEGAL ACTS

16. Applicable auditing standards recognize that the primary responsibility for the prevention and detection of fraud and compliance with applicable acts and regulations rests with both those charged with governance of the entity and with management. It is important that management, with the oversight of those charged with governance; place a strong emphasis on fraud prevention and fraud deterrence. They are also responsible for establishing and maintaining controls pertaining to the Entity's objective of preparing financial statements that are presented fairly, in all material respects, in accordance with the applicable financial reporting framework and managing risks that may give rise to material misstatements in those financial statements. In exercising oversight responsibility, those charged with governance should consider the potential for management override of control or other inappropriate influence over the financial reporting process.
17. As auditors, in planning and performing the audit, we are required to reduce audit risk to an acceptably low level, including the risk of undetected misstatements in the financial statements due to fraud. However, we cannot obtain absolute assurance that material misstatements in the financial statements will be detected because of such factors as the use of judgment, the use of testing, the inherent limitations of internal control and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature.
18. No fraud or illegal acts came to our attention as a result of our audit.

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#### SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

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

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#### DISAGREEMENTS WITH MANAGEMENT

20. We have had no disagreements with management resulting from our audit.

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#### ANY OTHER SIGNIFICANT MATTERS

21. There were no other significant matters noted during the audit.

#### ACKNOWLEDGEMENTS

22. We would like to express our thanks to the staff of the Office of the Ombudsman for their help and assistance during the audit of this year's financial statements.

Yours sincerely,



**Patrick O. Smith, CPA, CFE**  
Auditor General

## APPENDIX 1 – SUMMARY OF ADJUSTED MISSTATEMENTS

Account number	Account description and adjustment details	Debit (\$)	Credit (\$)
20100	Trade Payables	11,583	
12009	Accrued Prepayments		11,583
	Adjustment to reclassify the two months' rent (credit memo from the landlord)		



## APPENDIX 2 – INTERNAL CONTROL MATTERS AND SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p><b>1. Failure to strictly adhere to the entity's revenue recognition policy</b></p> <p>IPSAS 9 requires an Entity to recognise revenue in the accounting period in which it is earned. However, we noted the revenue recognition method used by the Entity is not in compliant with the IPSAS standards. The Entity bills the Cabinet by dividing appropriated amounts by twelve months. The entity then monitors expenditure towards year-end to ensure billing is in line with actual spending.</p> <p>Although a break-even scenario was achieved at year-end, the accuracy of the reporting to management during the year on what is earned is skewed, and hence, it can misinform decision-making.</p>	<p><b>Risks/Implications</b></p> <p>There is a risk of non-compliance with the Entity's revenue recognition policy, the requirements of IPSAS 9, and the Public Management &amp; Finance Act due to the incorrect billing of the government for revenue during the period.</p> <p><b>Recommendation</b></p> <p>OAG recommends that the Entity follow the cost recovery revenue recognition policy and IPSAS standards requirements throughout the year, ensuring that billings are made only to the extent of costs incurred.</p>	<p>The Oversight Committee approves the Cabinet invoices. Given the Oversight Committee does not meet monthly, it is impractical to bill Cabinet for actual costs monthly, as doing so could negatively impact operations due to cash flow issues.</p> <p>The Entity ensures compliance is achieved (revenue matches expenses) by the end of the financial year by adjusting the final cabinet billing for the year. The 2024 financial statements reflect the Entity was compliant and revenue matched expenses at the end of the year.</p>	

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p><b>2. Inadequate Application of Exceptional Circumstances for Direct Awards</b></p> <p>Section 5(1)(k) of the Procurement Regulations permits direct awards for legal services in exceptional circumstances. During our review, we identified four legal contracts with a total cost of \$113,952 awarded using this justification.</p> <p>The primary concern is that the awards noted the reasons for these exceptional circumstances, such as "sufficient expertise and experience," "reasonable fee," and "shortage of workforce/staff." However, it was not clear how these procurements were exceptional.</p> <p>Furthermore, we noted that the entity had used one of the suppliers in the prior periods for different cases, which raises a question about the appropriateness of the justification for "exceptional circumstances."</p>	<p><b>Risks / Implications</b></p> <p>There is a risk that the Entity's non-compliance with Section 5(1) of the Cayman Islands Government Procurement Regulations will lead to a failure to achieve value for money and an increased potential for the misappropriation of funds, particularly in relation to direct awards.</p> <p><b>Recommendation</b></p> <p>The Entity should consider reviewing its policy in conjunction with the Central Procurement Office to develop a framework for procuring legal services.</p>	<p>The Entity Procurement Committee (EPC) is now established but was not at the time of these direct awards. A framework for reviews by the EPC was set up with a member of the Procurement Office to assist in better management of OMB's procurement. Some of the legal costs in question were unanticipated, resulting from a judicial review of an OMB decision. OMB had retained counsel in respect of the decision and continued to retain him for the JR although it was a new instruction. He then instructed a KC on behalf of OMB, incurring more unanticipated costs. Even though instructing counsel had</p>	<p>In effect now</p>

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
		previously been retained on a separate matter, it was cost effective to continue the JR with counsel who was already familiar with the matter. These were considered “special circumstances” because the JR was unanticipated.	
<p><b>3. Lack of a justification for the direct award of agency services</b></p> <p>The entity directly awarded a \$24,000 contract to a Recruitment and Staffing Agency company for recruitment services, citing the employment exemption under Section 3(1)(c) of the Procurement Act.</p> <p>However, the contract with the Recruitment company was a service to which the provisions of the Procurement Act and Regulations still applied, as per Section 3(2) of the Procurement Act. Henceforth, the entity was required to seek out quotes or provide justification for the direct award, as required by the Procurement Act and Regulations.</p>	<p><b>Risks / Implications</b></p> <p>There is a risk that the Entity's non-compliance with Section 3(2) of the Procurement Act will hinder the achievement of value for money and increase the potential for the misappropriation of funds.</p> <p><b>Recommendation</b></p> <p>The Entity should ensure that a written justification for a direct award is in place, in line with the Procurement Act and Regulations.</p>	<p>The misinterpretation of section 3(1)(c) by the EPC is accepted. The Recommendation is noted and the EPC is aware of the need for written justification on all future direct awards.</p>	In effect now

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p><b>4. Value for Money concerns in automatically renewed agreements</b></p> <p>We noted the outsourced IT services agreement valued at \$54,000 for the year, containing an annual automatic renewal clause without an end date if not cancelled.</p>	<p><b>Risks / Implications</b></p> <p>The absence of periodic market reviews or competitive bidding processes poses a potential risk that the organisation may be locked into unfavourable terms. Consequently, this may lead to a failure to adhere to best practice procurement procedures and compromise value for money, as emphasised in Schedule 1 of the Procurement Act.</p> <p><b>Recommendation</b></p> <p>Management should ensure that the contract's terms are well-defined and contracts are reviewed consistently to ensure the value of the money for the Entity.</p>	<p>The Recommendation is noted. OMB will revisit the contract with a view to placing an end date in the agreement.</p>	<p>By end of August 2025</p>