



Auditor General's Speech at Government Professional Development Week

11 November 2014

Good afternoon, I hope you have had a good morning so far and that you are enjoying lunch

During the last week I have been thinking what I would talk to you about today. There is much to talk about, with the continuing challenges faced by public services and an increasing drive for change and reform.

With the EY report, which some of you will have heard more about this morning, there is a change agenda forming, and Gloria McField Nixon will also be talking more about changes in the public services in her session this afternoon

I was going to talk about the key issues that are on my mind or what keeps me awake at night, other than my 4 year old son demanding a glass of milk at 3am, and there maybe some time for that at the end or during questions

But I thought the timing of PD week, just after the passing of the statutory deadline for the audit of the public sector financial statements provided an opportunity for me to talk about the past, the present, and the future in respect of financial management and reporting across the public services, and in particular reflect on what has changed in the 4 ½ years that I have been in post

Looking back to July 2010 when I took up post I do wonder now, if I had truly realized the full scale of the issues around financial management and reporting whether I would have taken up the post of Auditor general.

I obviously had read the reports produced by my predecessor and had some understanding of the position but the reality is that it is only when you hit the ground that you really get a full understanding

The picture back in 2010 with respect to accountability for the use of public money could only be described as dismal, and I think that is probably being quite generous. In reality there was little accountability for any public money being generated or spent.

To contextualize this position I have pulled out some facts and figures from the first report that I issued on the state of financial reporting back in early December 2010.

At that time for the six years since the introduction of the PMFL

- 85 out of 220 sets of entity financial statements were outstanding or nearly 40%,
- that was after 15 ministry financials had just been finalized with disclaimers of opinion in the two or three weeks before my report was issued.

So there was a backlog equivalent to over two years of entity financial statements

- Of the 37 opinions issued at that time on Ministry and portfolio financial statements only 7 had been unqualified and 18 or just under half had either been disclaimed or received an adverse opinion meaning the information contained in them could not be relied on
- The Statutory Authorities and government companies were fairing a little better with 56 of the 98 financial statements having been issued with unqualified opinions, 38 qualified, 4 disclaimed
- Of the audited financial statements that were finished only 40 had actually been tabled in the legislative assembly and therefore become public documents

So to summarise as at 9 December when I issued my first public report only 18% of the entity financial statements that should have been publicly available were actually available to legislators and citizens to see what revenues had been generated and how their money had been spent, or to put it another way the equivalent of just over one year's financial statements were available when there should have been six

So what about the financial year ending 30 June 2010 specifically, how did that fair in my 9 December 2010 report,

- Only 15 out of 38 entities actually submitted their financial statements for audit by the deadline of 31 August 2010
- As at the 9 December 2010, 12 entities had still not submitted statements for audit
- only 4 entity financial statements were signed off by the statutory deadline of 31 October 2010, and none of those were a core government ministries or portfolios

With respect to the Entire Public sector consolidated financial statements none had been presented that were in a condition that they could be audited

So six years after the introduction of the PMFL the position was pretty bleak, and to all intents and purposes there was absolutely no accountability for the generation and use of public resources. Just as concerning there didn't seem to be a plan in place to rectify the situation.

We can examine the reasons why this position was reached but at the end of the day no matter how you look at it, I have to say that from my perspective, it was pretty scandalous, and it is clear that it is a causal factor in undermining public trust in Government

Now I recognize that is probably quite a strong statement but from my perspective what I found was diametrically opposed to my 19 years public sector auditing experience at that time.

In those 19 years I could probably count on my fingers and toes the number of public sector entities that I had audited which had any form of qualification.

I had personally never been involved in any audit that had issued an adverse opinion or a disclaimer of opinion.

Also it was very rare that audited financials were not completed and tabled in line with statutory requirements.

Don't get me wrong it's not that we never come across problems with financial management and reporting, significant issues of waste or misuse of public funds, or that there weren't scandals about the use of public money, but the fundamental principle of accountability through the presentation of an annual report including the financial statements was a serious requirement. Where there were failures in financial management and reporting there were consequences, particularly as it was often indicative of wider issues,

Although if I am being honest sometimes the consequences involved things like early retirement, or lateral moves into less demanding positions for expediency and to mitigate potential legal costs

But looking at my own experiences, I can think of a number of examples where senior staff were moving on because of issues in managing finances and reporting on them.

So the position I found 4 years ago in terms of public accountability, and hopefully you will agree, was pretty distressing

So what about now, have things moved forward, has accountability been restored.

Whilst it is probably a bit premature to get the full picture and discuss the overall results as financial statements for the last two fiscal years are still being audited, it is clear that as at 11 November 2014 things have improved, and relative to the position in December 2010 you could probably say quite a lot.

- For the years up to 30 June 2013 there are now only 12 financial statements that are outstanding.

For the latest fiscal year ending 30 June 2014

- All entities submitted their financials for audit by the 31 August, well apart from one, but that was only a couple of days late,
- By 31 October 23 entities had their audits completed and been signed off, with another 4 very close, the best result since the introduction of the PMFL.
- I am hopeful that year ending 30 June 2014 may be the first year that we don't have any adverse opinions or disclaimers on entity financials, although I must attach a significant health warning to that statement as some significant work is still required to get the full picture
- There is some progress being made on tabling reports in the legislative assembly, although there are still some significant delays

Now we have to be very careful how we interpret this information, because as I have already said work is still ongoing and we continue to find governance and internal control issues that impact significantly on the effective stewardship of public resources

But relative to the position at the end of 2010 financial management and reporting has clearly progressed and improved in relative terms quite significantly, which needs to be recognized.

However we also need to recognize that in absolute terms of restoring accountability for the use of public money, meeting our statutory responsibilities, and from a professional and ethical position of being where we should be there is still a way to go to achieve those goals

I don't want to diminish what has been achieved in the last few years in moving things forward, but citizens as the users of and the payers for public services have a fundamental right to know what revenues government has generated from them and how this money has been used.

They have no choice in paying the fees, charges, duties, taxes which fund government and the public services, unlike investors in the private sector, so as public servants our professional, ethical and fiduciary duties to safeguard public resources and assets, and report how those resources have been generated and used is significant, and in my opinion greater than that for private sector entities

Along with your CO's, CEOs' or MD's, Senior finance staff bear a significant ethical responsibility to be the gatekeepers and stewards of public resources, and effectively account for those resources

Ultimately until we have an EPS , along with all material entities financials issued and tabled close to the timelines in the PMFL, with information contained in them with high level of reliability, accountability will not be effectively restored

And thus public trust in government finances is still a way off, impacting on the credibility of Government overall

Whilst I obviously recognize that progress has been made, and that the position is relatively a lot better than back in 2010, I would be lying if I didn't tell you that I have found the pace of change frustratingly slow. If you had asked me four years ago what I would have hoped for by this time, it would be that we were quite a bit further on. In the four years I have seen some spurts of activity and progress, only to be followed by a loss of momentum.

For example it seems that every year once the 31 October deadline passes the momentum to get those financial statements not yet finalized finished falls away. I could recite a number of examples where my office has to all intents and purposes finished its audit work and is waiting on client responses to issues that need resolved before we can finish the audit,

It can then take months and some instances over a year to get appropriate client responses, leaving the financial statements in limbo and undermining accountability. At this point I would reinforce that responsibility for the preparation and presentation of the financial statements is the ultimately the

entities, not my offices, and I would suggest that you should be beating down the door to get the issues resolved so that you can meet your responsibilities.

Another perspective on this is to compare it with the budget process. Every year no matter what Government is able to get a budget passed by the Legislative Assembly so that it can have the legal authority to spend public resources, but then it hasn't been able to account effectively for how it has used those moneys and whether they have been used in line with the Assembly's intentions.

Contrast that with the private sector and in particular listed entities, whilst no doubt budgeting and strategic planning are very important, getting their financial statements audited and reported to their stakeholders are crucial. You just need to look at what is happening to Tesco in the UK currently where the issues with just interim results have hit its stock value, led to a number of senior executives being asked to step aside, and leading to investigation by a number of regulators.

So what for the future, where do we want to be

Do we want to be considered part of the wider malaise in the region for financial accountability and transparency for the use of public money.

Talking with my colleagues across the Caribbean it is not unusual for audited Government accounts to be years behind, and the audits constrained. This is not what we should aspire too and I am sure that is not what anybody here aspires too

I would suggest that as a leading international finance centre we should want to be demonstrating that Government is well run and accountable, able to effectively account for how it has generated and used public money.

By doing so Government will also importantly help build increased public trust that Government is able to manage the resources it coercively takes from citizens and other stakeholders and meet Citizens desire for accountability

From a personal perspective I want the Cayman Islands Government to be leading the way regionally and comparable to leading countries in its accountability for the use of public resources. I don't particularly enjoy issuing disclaimers, adverse or heavily qualified audit opinions, and writing reports that are critical.

Whilst the level of accountability is increasing as I have already said the pace of change has been slower than I would have hoped and ultimately accountability won't be truly achieved until we have achieved something near what is envisioned in the PMFL

Looking forward I do feel more positive

I see things moving in the right direction, even if it does stutter occasionally. But more still needs to be done and the momentum needs to build on the achievements so far. No doubt some changes to the PMFL will help but it should not be an excuse for not achieving accountability.

I believe the Deputy Governor is clear that he wants the service to move forward and be accountable, and is striving to set the tone, and bring forward an agenda of reform.

I see positive signs from the Ministry of Finance in trying to move things forward, an example being that there is now a plan in place for the preparation and delivery of Entire Public Sector consolidated financial statements for the first time

I would though like to see a clear vision for what is wanted and by when supported by overall plan for how this will achieved, clearly outlining responsibilities and roles, not just in terms of financial management and reporting, but also in terms of the broader governance and internal control environment, which underpins many of the issues impacting on the control and management of the public finances

The progress that still needs to be made will not be achieved over night but if there is a clear vision of what is wanted and by when, and how that will be achieved, we can demonstrate to all our stakeholders that we are serious and show progress to achieving these goals

In closing I would re-emphasize that relative to where things were in 2010 we have definitely made progress, but we need to aspire to much more and be aiming to be providing true accountability for the use of public money. I believe that is more than achievable and is something we all have our part to play in.