Office of the Auditor General
CAYMAN ISLANDS

Improving Financial Accountability and Transparency: Financial Management and Reporting

May 2021

To help the public service spend wisely

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EXECUTIVE SUMMARY

Good governance requires a range of factors, including accountability, transparency, effectiveness and efficiency. The International Federation of Accountants (IFAC) and the Chartered Institute of Public Finance and Accountancy (CIPFA) emphasise the need for good practices in ensuring transparency, reporting and audit in order to deliver effective accountability.[1]

The entire public sector (EPS) in the Cayman Islands is made up of core government entities and statutory authorities and government companies (SAGCs).[2] Together they provide a range of public goods and services, such as education, health care, national security, industry regulation and promoting the country, and are responsible for maintaining the public sector estate, such as schools, hospitals and roads, and delivering a range of capital projects to further improve infrastructure.

In 2019, the entire public sector spent $979 million on delivering goods and services and maintaining the estate.[3] The Cayman Islands Government (the Government) does not raise direct taxes but collects revenues to fund its goods and services, which are mainly charges to the public (known as coercive revenues), such as import duties. In 2019, the entire public sector generated total revenues of $1,136 million; core government collected $862 million, of which $796 million (92 per cent) was coercive revenues, and SAGCs generated a further $274 million from fees and charges. It is essential therefore that there is strong financial management and transparent reporting on the financial performance and position of the public sector and what it is delivering for these monies.

The *Public Management and Finance Act* (PMFA) was introduced in 2001 and provides the legislative framework for the financial management and reporting activities of the entire public sector.[4] Public bodies are accountable to the public and the Parliament for the money that they collect and spend.[5] They provide this accountability by publishing a range of information, including budget documents, financial statements and annual reports.[6] It is essential that the information provided is easily accessible, easy to understand, timely and reliable.

[1] *International Framework: Good Governance in the Public Sector*, International Federation of Accountants and the Chartered Institute of Public Finance and Accountancy, January 2014.
[2] Core government (also known as central government) comprises ministries, portfolios and independent offices.
[3] Figures are based on the unaudited consolidated EPS financial statements for the year ended 31 December 2019.
[4] The *Public Finance and Management Law* was changed to the *Public Management and Finance Act*, in December 2020 when all Laws in the Cayman Islands were changed to Acts.
[5] The Legislative Assembly changed its name to the House of Parliament (Parliament) on 4 December 2020.
[6] The Office of the Auditor General reported separately on the Government's budgeting framework and process in its report *Improving Financial Accountability and Transparency: Budgeting* in December 2020.

The OAG started an overarching performance audit, *Improving Financial Accountability and Transparency*, in 2019. The overall objective of the audit was to assess how transparent and accountable the Government's budgeting and financial reporting frameworks are. It aimed to answer the following three audit questions:

- Does the Government have an effective and transparent budgeting process?
- How effective is the Government at financial management and reporting?
- How well does the Government monitor, measure and report on financial performance and long-term financial sustainability?

In May 2020, the OAG took the decision to split this audit into a series of three reports, each covering one audit question. The OAG published the first report, *Improving Financial Accountability and Transparency: Budgeting*, in December 2020.[7] This second report covers financial management and reporting.[8] It should be read alongside our General Report on the 2019 financial statements audits of core government entities and SAGCs.[9] These two reports provide a comprehensive picture of financial performance, management and reporting in the Cayman Islands public sector.

This report provides a high-level summary of financial performance, management and reporting at the EPS level, and the General Report provides detailed information on financial performance and issues arising from the individual core government entity and SAGC audits. This report also provides an update on the Government's progress on implementing the recommendations we made to improve financial management and reporting in our 2013 report *Restoring Financial Accountability: A Time for Change?*.[10]

KEY MESSAGES

The Government and wider public sector have significantly improved financial management and reporting. Of the 18 recommendations aimed at improving financial management and reporting, that we made in our 2013 report, five had been fully implemented and six partly implemented.

Financial management

Financial management has improved significantly since 2013 and can be further strengthened.

The Ministry of Finance and Economic Development (MFED) has improved its financial leadership across government and the wider public sector. Over the past few years, MFED has issued a number of new

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[7] *Improving Financial Accountability and Transparency: Budgeting*, Office of the Auditor General, December 2020.
[8] The final report in the series will be published later in 2021.
[9] *Financial Reporting of the Cayman Islands Government: General Report 31 December 2019*, Office of the Auditor General, December 2020.
[10] *Restoring Financial Accountability: A Time for Change?*, Office of the Auditor General, June 2013.

policies and guidance that will help strengthen financial management across government once they are fully implemented. In 2017, MFED started to develop a Public Finance Manual and issued two of four parts in 2018. The remaining two parts were due to be issued in January 2019, but this has not yet happened. In 2017, MFED issued an internal control policy that outlines the responsibilities of public officers for creating and maintaining good control environments. The policy requires an annual Statement of Responsibility, but to date these have included only partial assurances. In 2019, MFED commissioned and launched a set of frameworks aimed at strengthening governance and financial management, including a risk management framework, control framework and performance reporting framework. Initiatives are ongoing to support the full implementation of these frameworks. There are now regular Chief Financial Officer (CFO) meetings, but these are for core government only; there is no similar group for CFOs of the SAGCs. We noted that, although MFED helps coordinate annual training for finance staff across the entire public sector, there is scope to further strengthen functional leadership by taking a more proactive role for technical issues and providing further guidance in some areas.

The Government established an Audit and Risk Assurance Committee in early 2019, which has met quarterly since September 2019. The committee has significantly improved oversight and assurance on financial management and controls for core government. The Government's Internal Audit Service has been strengthened since 2017, which has also contributed to improved accountability.

Most entities plan at the budgeting stage to break even. However, many budgets are increased during the year, and most core government entities end the year with a surplus. The EPS consolidated financial statements also reported an overall surplus in each of the five years to 2019, although it is worth noting that the 2018 and 2019 financial statements are not yet audited and the three previous years' financial statements had adverse audit opinions. It is not clear why budget increases are needed if surpluses during the year are being forecast. The Government has reintroduced quarterly financial reporting and could make better use of these quarterly reports to inform decision making about budget changes needed during the year.

Financial and performance reporting

Over the last decade, the quality of financial reporting has markedly improved. This has resulted in a reduction in the number of qualified audit opinions, from 16 in 2013–14 to none in 2019.[11,12] Although improvements are being made in reporting the financial performance of the EPS consolidated financial statements, the latest audited financial statements for 2016–17 still had an adverse audit opinion, as a number of significant deficiencies remain, such as the omission of post-retirement healthcare benefits

[11] At the end of February 2021 the OAG put on hold all backlogged audits to focus on the audit of the 2020 financial statements. At the time of this report, eight entity audits for 2016–17 to 2019 and the audits of the EPS financial statements for 2018 and 2019 had yet to be completed.
[12] The glossary on page 6 explains what each type of audit opinion means.

and pension liabilities. It is only through the consolidated EPS financial statements that the Government can be held accountable for significant items such as coercive revenues, transfer payments, including social welfare payments and grants, support to voluntary bodies (non-governmental entities), debt and financing expenses. It is therefore important that the Government works towards achieving a ‘clean’ audit opinion on the EPS consolidated financial statements.

For the 2019 financial year, the majority (38 of 41) of public bodies submitted their 2019 financial statements for audit on time, and, for the 2020 financial year, all entities submitted their financial statements for audit by the statutory deadline. Of the 37 audits of 2019 financial statements completed by the end of February 2021, all had received an unqualified audit opinion. This is a significant improvement: in 2009–10 the majority of financial statements were either qualified or disclaimed.

All public entities have prepared annual reports, incorporating their audited financial statements, since 2016–17, when the requirement was reintroduced in the PMFA. However, there is scope to improve the quality of annual reports, as they do not clearly report on service performance during the year, despite approved budgets being based on the delivery of a range of outputs.

Publishing the financial statements and annual reports is an essential part of the accountability process. The PMFA states that entities are expected to present their annual reports to the Cabinet for review within five months of the year end, and a member of the Cabinet is then required to present the annual reports to the Parliament at its next sitting – at which point they become public documents.[13] Despite the improvement in financial reporting, there continues to be a lack of accountability and transparency, as many financial statements and annual reports have not been presented to, or tabled in, the Parliament. As at February 2021, only 118 of 160 sets (74 per cent) of audited financial statements for the four years 2015–16 to 2019 had been tabled; 17 sets of audited financial statements for 2019 had not been tabled.

Financial performance

In 2011, the Cayman Islands Government and United Kingdom (UK) Government agreed the Framework for Fiscal Responsibility (FFR), which was incorporated into the PMFA in 2012. The FFR aimed to restore prudent financial management and set high-level parameters for the Government’s fiscal strategy. The PMFA sets out six principles for responsible financial management, which align with the FFR requirements, and the Cabinet is responsible for managing the financial performance and position of core government against these principles. The projected performance against each of the principles is

[13] Before 2016–17 the PMFA required that audited financial statements were presented to the then Legislative Assembly.

set out in the Government's Strategic Policy Statements, but the Government does not report actual performance against the principles in a timely manner.

Our assessment of the Government's actual financial performance against the principles for responsible financial management for the five years 2014–15 to 2019 shows that core government has performed well against most of the principles.[14] Overall, core government generated surpluses in each of the five years, although the financial performance of individual entities varied; both revenue and expenditure increased by around 30 per cent over the five-year period. Core government had sufficient assets to cover its liabilities in each of the five years; at the end of 2019, the Government reported net assets of $1,600 million. However, the EPS financial statements do not report the full liability for post-retirement costs for public servants; if these were included, there would be a net liability in four of the five years. Government borrowing has reduced significantly over the five years, and net debt was consistently less than the limit allowed. However, the cost of borrowing fluctuated, and the Government did not meet the requirement for the cost of borrowing to be less than ten per cent of core government revenue in three of the five years. Core government's financial risks from contingent liabilities reduced over the period, although recognising some provisions that may constitute a future financial risk is an issue that contributes to the adverse audit opinion on the EPS financial statements.

[14] We were unable to assess performance against the 90-day cash requirement because insufficient information was available.

GLOSSARY OF TERMS

Appropriation	The authorisation given by lawmakers (the Cayman Islands Parliament) to government to spend public funds, borrow money or take other actions covered by the financial management framework. When passed, the *Appropriation Act* contains the details of financial limits set by the lawmakers.
Audit opinion	The overall conclusion of the Auditor General on the financial statements (in common with an independent auditor governed by International Standards on Auditing). It can be one of four different types that distinguish the level of reliance readers can place on them: • **Clean or unqualified opinion** (technical term: **unmodified**) – The information contained in the financial statements can be relied on. • **Qualified** – A portion of the financial statements cannot be relied on, but the reader can rely on the rest of the statements. • **Adverse** – There are such significant deficiencies in the information in the financial statements that users should consider them unreliable, as the information contained therein is not trustworthy. • **Disclaimer** – The auditor was not provided with sufficient information to conduct an audit (in essence, this is not an opinion). An audit opinion may include an '**Emphasis of Matter**' paragraph, which refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
Coercive revenues	Revenues based on the Government's inherent powers to charge those within its jurisdiction; or revenues earned by the core government using the coercive power of the state and for which no direct exchange of services occurs.
Contingent liability	A liability that may arise in the future depending on the outcome of a specific or uncertain event. A contingent liability is reported only when the potential value can be estimated.
Core government	Ministries, portfolios and independent offices of the Cayman Islands Government. Ministries, portfolios and independent offices are referred to as core government entities.
Entire public sector (EPS)	The core government and all statutory authorities and government companies (SAGCs).
Entity transactions	Financial transactions and account balances that are within the control of a core government entity or SAGC.

Executive transactions	Financial transactions that are under the direct legal responsibility of Ministers, being administered by core government entities on their behalf (in contrast to entity transactions, which are under the direct legal responsibilities of the heads of public entities, e.g. Chief Officers or Chief Executive Officers). These include coercive revenues, transfer payments, executive assets and debts (and the related financing expenses). Examples of executive assets are infrastructure, heritage assets and others that are generally for the welfare of the entire country, in contrast to assets for the specific use of public entities to deliver their services (such as a hospital building). Other kinds of executive transactions are defined separately.
ISA 260 Report	An International Standards on Auditing (ISA) report from the auditor to those charged with governance that communicates key audit matters arising from the audit of the financial statements. 'Those charged with governance' are defined as the people or organisations, e.g. trustees or board members, that are responsible for overseeing the strategic direction of the body and obligations related to the accountability of the body, including the financial reporting process.
Outputs	Services delivered by public entities or other organisations that are paid for (purchased) by the Government (as Cabinet).
Public bodies	Any one of the entities responsible for separate financial accountability and reporting in the Cayman Islands Government, i.e. a ministry, portfolio, independent office, statutory authority or government company.
Statutory Authorities and Government Companies (SAGCs)	Any one of the public bodies owned by the Government that are not in core government. Statutory authorities have been created by specific Acts (e.g. the Water Authority was created under the *Water Authority Act*), while government companies have been organised under the *Companies Act* (i.e. similar to any company operating and present in the Cayman Islands, such as the Cayman Islands Stock Exchange Ltd).
Transfer payments	A classification of government expenditure that is usually a benefit given by government to individuals or entities without the expectation of a good or service in return. For example, social benefits are paid without the expectation of a corresponding good or service.

INTRODUCTION

1. Good financial management and reporting are core components of good governance. Governments are accountable to the public for the revenues that they collect and the monies they spend to deliver public services. Reporting on these activities therefore needs to be transparent to enhance public engagement and trust in government and to discourage corruption in the public sector. It is important that governments and public bodies proactively disclose financial information to support accountability and transparency and to help the public monitor performance and compare actual results with approved budgets.

2. The Cayman Islands Government (the Government) is made up of 13 core government entities, Judicial Administration and four independent offices, one of which is the Office of the Auditor General (OAG).[15] For the purposes of budgeting and accounting these 18 bodies are collectively called core government. The Government also wholly owns 26 statutory authorities and government companies (SAGCs). Each core government entity, independent office and SAGC is an individual reporting entity. Together the core government and SAGCs constitute the entire public sector (EPS), which is also a separate reporting entity. For the purposes of this report we have focused on the public bodies that were in place at 31 December 2019.

3. In 2019, the entire public sector of the Cayman Islands spent $979 million and generated revenues of over $1,136 million, making a combined annual surplus of $165 million. Within this, core government spent $707 million and generated revenues of $862 million.[16]

4. It is essential that there is effective financial management to ensure that value for money is obtained and that there is transparent financial reporting that enables the public and other key stakeholders, such as elected members, to hold the public sector to account for the revenue that it generates and the money that it spends. The Government and individual public bodies provide accountability by publishing a range of information, including financial statements and annual reports. It is essential that such information is as transparent as possible, and it should therefore be easily accessible, easy to understand, timely and reliable.

[15] Core government entities include ministries, portfolios, Judicial Administration and independent offices, including the OAG, Office of the Ombudsman and Office of the Director of Public Prosecutions. In May 2019, the Government created the Ministry of International Trade, Investment, Aviation and Maritime Affairs. In January 2020, an additional independent office, the Office of the Police Commissioner (known as The Royal Cayman Islands Police Service) was created. On 1 January 2021, the Parliament of the Cayman Islands became a separate reporting entity.

[16] Note that all figures reported for the entire public sector for 2019 are unaudited.

5. The COVID-19 pandemic in 2020 has resulted in reduced revenues and significant additional expenditure to combat the disease and on measures to prop up and rebuild the economy and its people. These exceptional expenditures and unplanned changes mean that good financial management is more important than ever.

THE PMFA SETS OUT THE PRINCIPLES OF RESPONSIBLE FINANCIAL MANAGEMENT AND THE FRAMEWORK FOR FINANCIAL REPORTING

6. The *Public Management and Finance Act* (PMFA) was first enacted in 2001, replacing the *Public Finance and Audit Law*, and provides the legislative framework for the financial management and reporting activities of the entire public sector. It also makes provision for an internal audit service for core government and provides further detail on the Auditor General and independent audit of public bodies that is set out in the Constitution.

7. The PMFA has been amended 12 times since it was first introduced. In 2004, the PMFA was amended to introduce accrual accounting and devolve financial functions to individual core government entities and SAGCs. In 2011, it was amended to remove the requirement for annual reports, output reports (on actual delivery) and quarterly reporting and to waive the audit requirements for 2007–08 and earlier financial statements. In 2012, it was amended to incorporate the Framework for Fiscal Responsibility (FFR), which was agreed with the UK Government in November 2011 and was intended to restore prudent financial management and set high-level parameters for the Government's fiscal strategy. In 2017, the PMFA was amended to reintroduce the requirement for annual reports and quarterly core government reporting and to change the financial year-end to 31 December (from 30 June).

8. In addition to the PMFA, the Government has a range of legislation and regulations that support good financial management. These include Financial Regulations that set out detailed requirements and controls for financial management. The *Procurement Act 2016* and Procurement Regulations, which were brought into force in May 2018, provide detailed guidance on public procurement.

9. In our June 2013 report *Restoring Financial Accountability: A Time for Change?*, we raised significant concerns about the Government's progress in effectively implementing the PMFA and raised a number of concerns about financial management and reporting. Our General Reports, which summarise the findings from our financial audits each year, have reported significant improvements in financial management and reporting, but they continue to report a number of weaknesses and areas for further improvement.

ABOUT THE AUDIT

10. Originally, the OAG intended to carry out an audit to assess the Government's approach to budgeting, financial management and reporting. The overarching objective of that audit was to

assess how effective the Cayman Islands Government is at budgeting, financial management and reporting to enhance transparency, accountability and long-term financial sustainability. The approach was system-oriented, and it sought to answer the following audit questions:

- Does the Government have an effective and transparent budgeting process?
- How effective is the Government at financial management and reporting?
- How well does the Government monitor, measure and report on financial performance and long-term financial sustainability?

11. In May 2020, the OAG decided to report on each of these three issues separately under a series of reports entitled *Improving Financial Accountability and Transparency*. This report is the second in the series, and it specifically covers the second audit question above on financial management and reporting.

12. This report focuses on the entire public sector and the Ministry of Finance and Economic Development (MFED) and its coordination role over the entire public sector. The report assesses the Government's implementation of the audit recommendations made in our 2013 report with the aim of improving financial management and reporting. Appendix 1 provides a summary of the 2013 recommendations and an update on the Government's progress in implementing them.

13. The audit covers the five-year period from 2014–15 to 2019.[17] It should be read alongside the latest General Report on the 2019 financial statements that was published in December 2020, which provides more detailed information and commentary on the financial performance and financial management and reporting of the individual core government entities and SAGCs.

14. The approach to the audit included:

- conducting interviews with key stakeholders, including MFED staff;
- reviewing documents, including legislation, guidance, financial statements and annual reports, financial metrics, staffing information, other financial reports and information, and performance expectations for significant government programmes;
- analysing financial and performance information; and
- researching and identifying international good practice in financial management and performance reporting and assessing the Government's approach against it.

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[17] The audit covers five financial years: 2014–15 and 2015–16 covered 1 July to 30 June; the financial year 2016–17 covered the 18-month period from 1 July 2016 to 31 December 2017; and the financial years 2018 and 2019 covered the calendar year from 1 January to 31 December. At the time of this report, the audit of the EPS financial statements for 2018 and 2019 and the audits of some entities and SAGCs for 2019 and previous years had yet to be completed.

15. More information about the audit, including the audit criteria, approach and methodology, can be found in Appendix 2 of this report.

16. The report is divided into the following three chapters:

- Financial Management.
- Financial and Performance Reporting.
- Financial Performance.

FINANCIAL MANAGEMENT

17. Good financial management is a core component of sound governance and requires government processes to be clear and effective and linked to financial accounting to ensure that transactions are captured as they happen and that information is accurate and complete. These requirements are key components of the PMFA.

18. In 2013, we raised concerns about financial management across government. These included the need for stronger financial leadership, clear roles and accountability for implementing an effective framework for financial and performance reporting across the public service and the need to strengthen accountability and responsibility across government for complying with the financial and performance reporting framework.

19. Our annual General Reports have reported a number of weaknesses in financial management and governance. Our most recent General Report highlighted that there had been a reduction in control deficiencies but continued to report a number of weaknesses, including the following:

    - Governance issues relating to boards of directors, audit and risk committees, minute taking and notices of interest.
    - The need to further strengthen functional financial leadership.
    - Non-compliance with laws and regulations, including the *Public Authorities Act*, particularly in relation to section 47, terms and conditions of remuneration, and the *Procurement Act.*
    - Non-approval of supplementary appropriations.
    - SAGCs' reliance on government funding.
    - The lack of policies, procedures and specific control issues.

FINANCIAL MANAGEMENT AND OVERSIGHT HAVE IMPROVED AND CAN BE STRENGTHENED FURTHER

20. In 2013, we made a number of recommendations aimed at strengthening financial management across government. This included the need for a strong, central financial function that is responsible for ensuring the effective operation of the financial management framework and that would be responsible for a range of issues, including oversight of financial management (and reporting) across the entire public sector and setting appropriate accounting policies and directives.

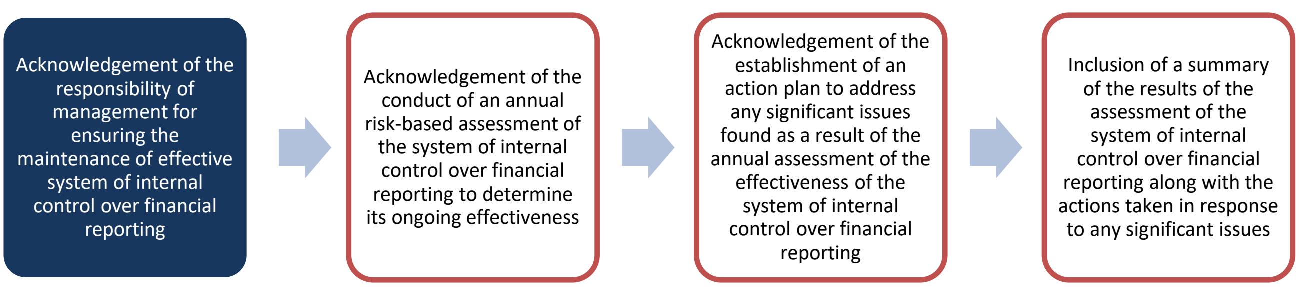
MFED PROVIDES OVERSIGHT AND GUIDANCE AND CAN IMPROVE THIS FURTHER

21. The PMFA and the accompanying Financial Regulations provide MFED with significant authority to ensure that core government entities and SAGCs comply with laws, regulations and policies.

22. MFED provides functional leadership for finance across core government. It does this by providing guidance on accounting treatment and financial management rules, including coordinating annual training for finance staff; overseeing and supporting entities through the Treasury and Central Procurement Office; providing templates for the annual financial statements; and convening meetings of Chief Financial Officers (CFOs), although these meetings cover only core government entities and not SAGCs. MFED also provides a central finance role for core government and is responsible for consolidating financial information and preparing whole-of-government accounts, that is, the EPS consolidated financial statements.

23. MFED issued an internal control policy, which became effective on 1 November 2017. The policy provides suggested internal controls for different aspects of government operations, such as collecting and depositing revenue and limiting access to cash. The policy gives the Financial Secretary responsibility for leadership and functional direction within core government for the system of internal control. The policy states that Chief Officers are responsible for internal controls and are expected to provide assurances on the effectiveness of internal controls in their entity by signing and submitting, together with their CFOs, an annual Statement of Responsibility.[18] Exhibit 1 summarises the information that the Statement of Responsibility is expected to cover.

Exhibit 1 – Internal Control Statement of Responsibility



Source: Internal Control Policy, Cayman Islands Government

24. Since 2018, the Statements of Responsibilities in financial statements have included an acknowledgment of responsibility for maintaining internal controls, which is the first requirement of

[18] Paragraph 33 of the internal control policy document.

the policy. However, the Statements of Responsibility do not cover the other requirements of the internal control policy.

25. To further support the internal control policy, MFED commissioned consultants to develop a set of frameworks aimed at further strengthening governance, risk and performance management. The frameworks were launched at a series of training events in May 2019 and published in July 2019. The frameworks include the following:

- A risk management framework, which sets minimum standards for the management of risks, including revenue collection risks. The framework aims to standardise risk assessment methodologies, provide the tools required to implement a strong risk environment, enable risk-based decision making at all levels of government and ensure that risk information is available when required or requested through a robust reporting and governance system. MFED has since developed a risk management tool that will allow entities to track, monitor and prioritise risks; training on the tool was carried out in March 2021. The framework states that part of the governance structure will be appointing a Chief Risk Officer. At the time of preparing this report, we were told that a job description had been drafted but that recruitment to the post was on hold.
- A control framework, which sets minimum standards to enable 'risk units' to establish a proper and effective internal control system.
- A performance reporting framework that sets standards for performance reporting on key risk indicators and key performance indicators and aimed to introduce a framework for identifying, measuring and communicating results, which would contribute to continuous improvement and encourage accountability and transparency.

26. At the time of preparing this report, these frameworks have yet to be implemented. It is important that these new frameworks are fully implemented as soon as possible, as they are necessary to provide the assurances needed on the risk and internal control frameworks in place that will allow full Statements of Responsibility to be signed.

27. We reported in 2018 that MFED had started to develop a Public Finance Manual.[19] MFED issued the first two parts of the manual in February 2018 (Part I – Introduction to the Government and the CFO; and Part II – Accounting principles and guidelines). The accounting principles and guidelines were previously in the Financial Regulations; moving them out of the regulations makes them easier to update when there are revisions to accounting and auditing standards. Part III (The accountability

[19] *Follow Up on past PAC Recommendations*, Office of the Auditor General, October 2018.

cycle) and Part IV (Policies) were originally expected to be issued by 30 June 2018 but were later delayed until 31 January 2019. At the time of preparing this report the final two parts of the Public Finance Manual had not yet been issued. We understand that MFED had prioritised developing and rolling out the risk management framework and tool and that it plans to revisit the manual after the Budget and Reporting Working Group has concluded its work.[20]

28. In July 2019, MFED published policies and procedures for public–private partnerships (PPPs) and alternative financing, which are based on the requirements set out in the FFR and aim to standardise and increase the transparency of the process for implementing PPPs.

29. The Central Procurement Office (CPO) provides procurement advice for the entire public sector. The *Procurement Act 2016* and Procurement Regulations were brought into force in May 2018 and provide detailed guidance on public procurement. The CPO website provides a range of guidance on procurement.

30. We found that there is scope to further improve guidance and functional leadership for finance, particularly in relation to providing guidance on implementing accounting and financial reporting standards, advice and guidance on complex financial transactions and guidance on the financial implications of implementing legislation and policies. For example:

   - During 2018, SAGCs were required to implement two new International Financial Reporting Standards: IFRS 9 on impairment losses and IFRS 15 on revenue recognition.[21,22] However, each of the affected SAGCs approached the issue differently. SAGCs independently commissioned consultants to provide advice on the impact of the new standards and how they should be applied. Some of the consultants took longer than anticipated to provide the advice and some of the advice was conflicting, both of which delayed the completion of some of the audits. This approach also meant that the cost of procuring the consultancy advice may have been higher than necessary. A better solution might have been for MFED to determine the need for any external technical expertise and procure it centrally to ensure value for money and consistent advice. MFED could consider providing stronger leadership if similar circumstances arise in future.

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[20] We reported in *Improving Financial Accountability and Transparency: Budgeting* that MFED had set up a Budget and Reporting Working Group in May 2018 but that the group had been put on hold.

[21] The amendment to IFRS 9 that affected financial year 2018 involved a change in how impairment losses on financial assets (including loan, trade and other receivables) are measured. The steps in analysing its effect on the entity and the steps in preparing data, calculating and presenting supporting information are generally more onerous than the previous requirements.

[22] IFRS 15 is a new standard that requires reporting entities to measure revenue in accordance with a new five-step framework that links revenue recognition with the reporting entity's performance obligation, transaction price and timing of the delivery on the performance obligation. The new standard allows entities to partly or completely change the timing of recognition of revenue.

- During 2019, many SAGCs had issues in complying with section 47 of the *Public Authorities Act*, which covers salary scales and job evaluation and had come into force in June 2019. This was one of the key audit matters that we reported in our General Report and contributed to a number of SAGCs receiving an 'emphasis of matter' paragraph in their 2019 audit opinion. We also reported in *Improving Financial Accountability and Transparency: Budgeting* that the Act had a financial impact for some SAGCs. Aligning SAGC salary scales with the core government scale is only the first stage of implementing section 47 of the Act. The Act also states that SAGCs may reduce differences in terms and conditions of employment by making contributions to employees' health insurance and pensions. If SAGCs choose to do that, it will have significant financial implications. It is not clear to what extent the financial implications of this legislation had been considered in advance or whether any guidance was issued to support SAGCs in implementing it.
- In April 2016, MFED circulated a draft policy and a proposed formula according to which some statutory authorities would pay annual dividends to the Government; it was intended to take effect in July 2016 for the 2016–17 financial year. However, the policy was not finalised. The *Public Authorities Act* introduced a requirement for all SAGCs to pay dividends. In 2019, MFED issued a policy that set the dividend formula (which was different from the 2016 proposal) and was intended to take effect from the 2019 financial year. The policy included some detailed information such as a worked example and the circumstances in which SAGCs would be exempt from paying dividends. However, this policy was not consistently applied, as some SAGCs interpreted the guidance differently. MFED is currently updating the guidance and formula for calculating the dividend payable, but a more strategic approach is needed to address this.

31. In October 2020, MFED published its Strategic Plan for 2021 to 2025. The Plan states that MFED's vision is to be 'An innovative Ministry that drives excellence through timely, informed and accountable decision making'. It sets the following four strategic objectives:

- Take on leadership for the crafting of a Government-wide economic development strategy. This includes, among other initiatives, developing a more strategic and structured approach to Government procurement and reviewing and improving procurement processes.
- Improve public and private sector decision making, collaboration and resilience. This includes, among other activities, improving data and committing to reviewing and enhancing the government-wide risk management framework and plan mentioned in paragraph 25.
- Strengthen the Government's 'managing for results' environment and culture. This objective will have the biggest impact on financial management and reporting. To achieve this, MFED plans to continue to work with public entities to bolster the timeliness, quality and usefulness of financial reporting across government, develop and implement risk management processes and enhance the framework for reporting service performance information.
- Become a workplace of choice for civil servants within the Government.

32. We welcome MFED's strategic plan and commitment to further strengthen frameworks and processes that aim to further improve financial management and reporting of financial and service performance. It might also be helpful if MFED developed an operational or action plan that sets out a roadmap of how it plans to deliver and measure progress against the objectives in its strategic plan.

Recommendation 1: The Government should ensure that the internal control policy is fully implemented as soon as possible, with a view to including full Statements of Responsibility for Internal Control in the 2022 financial statements.

Recommendation 2: The Government should ensure that the new governance and financial management frameworks, including risk management and performance management, are implemented as soon as possible.

Recommendation 3: The Government should estimate the cost of fully implementing section 47 of the *Public Authorities Act* and ensure that sufficient funding is provided to statutory authorities and government companies in their future budgets.

AN AUDIT AND RISK ASSURANCE COMMITTEE FOR CORE GOVERNMENT WAS ESTABLISHED IN 2019

33. In 2013, we recommended that the Government establish an audit committee for the core government and subsequently recommended this in various reports.

34. In January 2019, the Deputy Governor established the Audit and Risk Assurance Committee (ARAC) for core government and appointed a chairperson and two members to the committee. He also issued standing invitations to the five other officials, including the Auditor General and the Director of Internal Audit.

35. The terms of reference of the ARAC outline the scope, membership (number, appointment, term and competence), meetings, reporting and other arrangements for the ARAC. They also set out its responsibilities, which are to challenge and review, and to advise the Deputy Governor, in the areas of governance, risk management, internal control, financial management and reporting, and internal audit. The terms of reference also state that the OAG will also consult with the ARAC on its audit plan and audit strategy. The terms of reference provide a good basis for the ARAC to carry out its duties and advise the Government.

36. The ARAC met for the first time in September 2019 and has met quarterly since then. It receives regular update reports from the Financial Secretary, Director of Internal Audit and Auditor General. Since its inception, the ARAC has helped to shape the Government's new risk management framework and has specifically considered the risks associated with cybersecurity.

THE GOVERNMENT HAS A STRONG INTERNAL AUDIT SERVICE

37. In 2013, we recommended that the status, position and resourcing of the Internal Audit Unit needed to be fundamentally addressed to enable it to provide appropriate levels of assurance and add value. We recommended that this should include a fundamental review of the scope of its client base and resourcing to enable it to comply with the requirements of Internal Audit Standards, and that it should report directly to the Office of the Deputy Governor.

38. The Government responded to this recommendation immediately by moving the Internal Audit Unit out of MFED and into the Portfolio of the Civil Service (POCS) in the 2013–14 financial year. In 2017, the Internal Audit Unit and Human Resources Audit Unit within POCS were merged to create the Internal Audit Service (IAS). The PMFA has also been amended to require a Director of Internal Audit and set out their functions and powers. The first Director of Internal Audit was appointed in September 2017.

39. The IAS has an Internal Audit Charter, which sets out its purpose, authority and responsibilities and complies with international standards. The IAS provides internal audit services for core government and a number of SAGCs and carries out a range of different types of audit, including entity assurance, thematic, advisory project, information technology, human resource and investigation. The IAS prepares an internal audit plan, which specifies the number and types of audits it plans to undertake, prepares regular reports for the Deputy Governor on core government's progress in implementing internal audit recommendations and provides regular updates to the ARAC on progress against the annual plan. The IAS and OAG have a memorandum of understanding that aims to avoid duplication of effort and sets out how information will be shared. In March 2021, the IAS took over the role of secretariat of the ARAC.

FINANCIAL AND PERFORMANCE REPORTING

40. The Government and wider public sector provide accountability by publishing a range of information, including financial statements and annual reports. It is essential that such information is as transparent as possible, and it should therefore be easily accessible, easy to understand, timely and reliable.

41. Over the years we have raised a number of concerns about financial and performance reporting and made recommendations to improve it. In 2013, we reported that work was needed to simplify the framework for financial and performance reporting for core government, to develop a practical framework for performance reporting and to implement additional transparency measures around the use of public resources. We made a number of recommendations that included the following:

    - Providing commentaries on the results in the financial statements and other matters to aid readers' understanding.
    - Reintroducing quarterly reports at the core government level.
    - Designing and implementing a system of performance reporting based on measuring the achievement of high-level impacts and outcomes, not just outputs.
    - Effective and transparent reporting of spending against the appropriations authorised by the then Legislative Assembly (now Parliament).
    - Removing the distinction between entity and executive transactions.

42. In January 2014, MFED established a committee to review the PMFA, including responding to some of the recommendations that we made in 2013. In February 2015, the committee issued its report to the Minister of Finance and Economic Development, which contained a number of recommendations to improve financial management and reporting. Some of these recommendations were implemented through amendments to the PMFA and other initiatives (some are discussed below). In early 2018, MFED established a new group – the Performance Budgeting and Reporting Working Group – that plans to introduce further improvements in financial reporting.

43. Our General Reports summarising findings from the annual financial statement audits have also continued to identify areas for improvement in financial and performance reporting. We reported in *Improving Financial Accountability and Transparency: Budgeting* that the Government's budgeting framework continues to be focused on outputs rather than outcomes and that the distinction between entity and executive transactions remains. The Government has committed to addressing these issues when it reviews the budgeting framework.

THE QUALITY OF FINANCIAL REPORTING BY ENTITIES AND SAGCS HAS IMPROVED, BUT FURTHER WORK IS NEED TO IMPROVE THE EPS FINANCIAL STATEMENTS

THE QUALITY OF ENTITY AND SAGC FINANCIAL REPORTING HAS IMPROVED SIGNIFICANTLY

44. The PMFA requires that each public body, that is, core government entity or SAGC, produce audited financial statements for every financial period and set out the requirements and timescales for entities to prepare their financial statements and for the Auditor General to audit them.[23] Core government entities are required to produce audited financial statements that comply with the International Public Sector Accounting Standards (IPSAS) and to report on their activities in their annual reports. SAGCs are expected to assess their business to determine the most appropriate financial reporting framework; some use IPSAS, while others prepare their financial statements based on IFRS.

45. The Government adopted IPSAS in 2004, and the requirement for IPSAS financial statements began in 2004–05. However, at that time most entity financial statements received qualified, adverse and disclaimed audit opinions.[24] Over the following decade there was limited improvement until 2013–14, when, for the first time, none of the audit opinions on entity financial statements were adverse or disclaimed. Since then, the quality of financial statements has improved significantly year on year.

46. Our most recent General Report on the 2019 financial statements of entities and SAGCs reported that there had been a marked improvement in the quality of financial information, resulting in all audit opinions issued for 2018 and 2019 so far being unqualified (clean). Exhibit 2 shows that over the ten years 2009–10 to 2019, the quality of financial reporting improved, resulting in a significant increase in the number of clean audit opinions issued from 15 for the 2009–10 financial statements to 37 for 2019.

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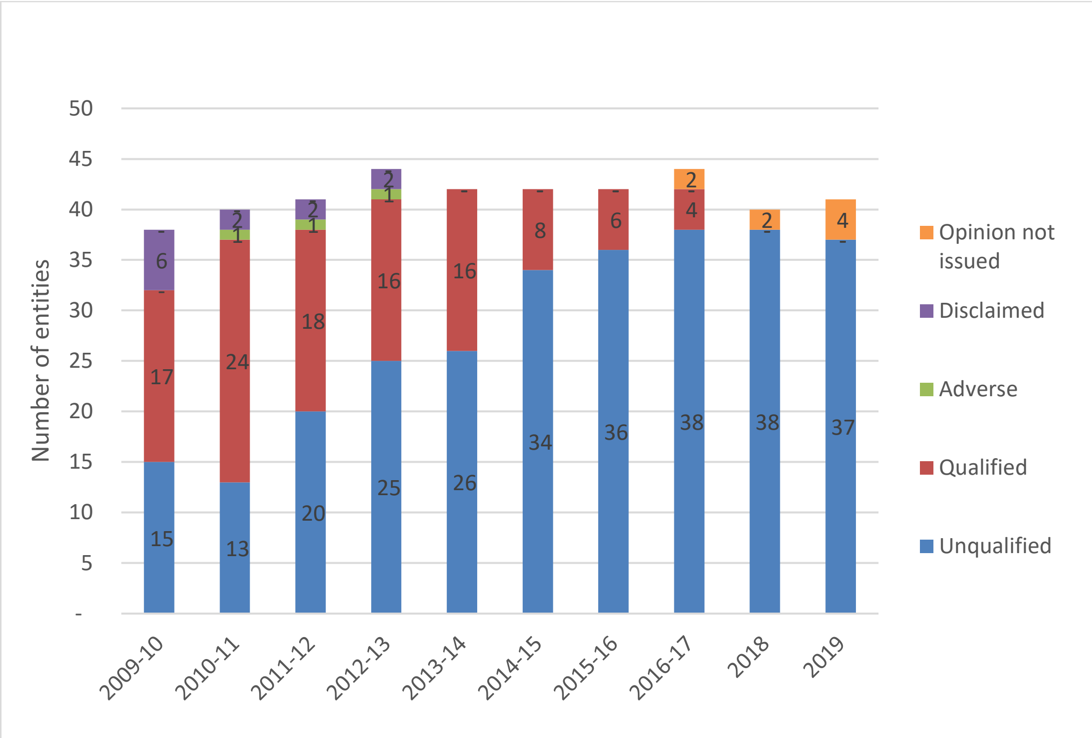
[23] The financial statements of the OAG are audited by an independent external auditor appointed by the Parliament's Public Accounts Committee.

[24] Definitions of the four types of audit opinions are provided in the glossary on page 6.

Exhibit 2 – Audit opinions issued for public sector entities, 2009–10 to 2019



Note: One additional audit for 2019 was completed between the 2019 General Report being published and this report being drafted, leaving eight entity audits backlogged as at March 2021.

Source: OAG analysis

FURTHER IMPROVEMENTS IN FINANCIAL REPORTING ARE NEEDED AT THE EPS LEVEL

47. The Government, through MFED, prepares and publishes the EPS consolidated financial statements. The EPS financial statements cover all subsidiary financial statements – core government entities and SAGCs – and account for all executive transactions, such as coercive revenues, transfer payments and pensions, and many assets and debts that are not reported in individual entity financial statements. The EPS financial statements are therefore fundamental for financial reporting of entire public spending against the appropriations authorised by the Parliament.

48. The quality of the EPS financial statements has improved in recent years from a disclaimed audit opinion for 2012–13 to an adverse audit opinion in 2013–14. However, the audit opinion remained adverse in each of the subsequent years up to 2016–17. At the time of preparing this report, the audits of the EPS financial statements for 2018 and 2019 were ongoing but had not yet been completed. Exhibit 3 provides a summary of the main reasons for the audit opinions (disclaimer or adverse) between 2012–13 and 2016–17.

Exhibit 3 – Issues leading to adverse audit opinion or disclaimer in EPS financial statements, 2012–13 to 2016–17

	2012–13	2013–14	2014–15	2015–16	2016–17
Audit opinion (D = Disclaimer; A = Adverse)	**D**	**A**	**A**	**A**	**A**
Issues leading to audit opinion:					
Audit adjustments in subsidiaries not reflected in EPS and unaudited beginning balances	n/a	×	×	×	×
Exclusion of Public Service Pensions Board from consolidation	n/a	×	×	×	×
Omission of post-retirement healthcare benefits and pensions[1]	×	×	×	×	×
Lack of supporting documentation for revenues (affecting receivables and unearned revenue)[2]	×	×	×	×	×
Insufficient management representations	×	✓	✓	✓	✓
No system to ensure related party disclosures are accurate	×	n/a	×	×	×
Inaccuracies from improper eliminations	n/a	×	✓	✓	✓
Matters relating to property, plant and equipment[3]	n/a	×	×	×	×
Completeness of provisions, e.g. environmental liabilities	n/a	×	×	×	×
No listing of current liabilities	n/a	×	✓	✓	✓

Key: × (raised during this audit); ✓ (previously raised but now resolved); n/a (issue not relevant for the year)

Notes: 1. In 2012–13, this issue was limited to healthcare benefits and expanded in the following year to include pensions. 2. Revenue issues include coercive revenue streams and revenues of the Health Services Authority. 3. Issues include revaluation of SAGC property, plant and equipment; the completeness and reasonable value of road network balances; and the absence of asset listing and impairment testing (e.g. Cayman Turtle Conservation and Education Centre)

Source: OAG analysis

49. Much more needs to be done to move the audit opinion to qualified (and then unqualified) as a significant number of deficiencies remain in the financial statements, including the following:

- The EPS financial statements are based on draft financial statements of its subsidiaries, that is, core government entities and SAGCs. The PMFA requires that the EPS financial statements are submitted to the Auditor General within five months of the year end, which is one month after the statutory deadline for audit of entities and SAGCs. We have previously reported in our General Reports that the backlog of audits has significantly reduced and that the quality and timely submission of financial statements has significantly improved.

- Many core government entities have poor internal controls of their management of coercive revenues. We recommended in our 2015 report *Collecting Government Revenues* that the Government develop and implement appropriate controls to ensure that all revenues owed to it are collected.[25] In December 2018, MFED engaged a consultant to provide advice on how internal controls and accounting for revenues could be improved, which led to the issuing of new guidelines in July 2019. These new guidelines require minimum revenue controls, revenue control attestations and management of revenue control deficiencies (called revenue incidents). This is a welcome development, but it is too early to tell what difference these new controls will make, as the new arrangements would not have been in place until financial year 2020.
- The EPS financial statements do not include the full liability for pensions and healthcare. In 2017, the PMFA was amended to exclude pension assets and liabilities from EPS consolidated financial statements. This is a departure from IPSAS requirements, although the PMFA states that the EPS financial statements should be prepared in accordance with IPSAS. It is not clear how the Government will be able to show a complete financial position while it continues to exclude these liabilities from its financial statements.

50. We reported in *Improving Financial Accountability and Transparency: Budgeting* that executive transactions were significant – 93 per cent of core government revenues and 15 per cent of total government expenditure – and that budgeting and accounting for executive and entity transactions separately was unnecessarily complex and reduced transparency. It is important that there is clear and timely financial reporting of the actual amounts of executive revenues and expenditures, including comparisons against budget. It is also important that the financial information reported shows the full cost of administering and delivering public services, rather than reporting these separately in individual entity and EPS financial statements. We recommended in that report that the Government should amend the budgeting and financial reporting framework to remove the requirement to budget and account for executive and entity transactions separately. The Government accepted this recommendation and plans to implement this by March 2023.

51. Many countries around the world produce government-wide consolidated financial statements. However, it can take time for governments to fully prepare their statements in line with accounting standards and to a standard that satisfies their auditors. For example, in 2009–10 the UK Government prepared its first whole-of-government consolidated financial statements; ten years later, in 2018–19, its financial statements continued to receive a qualified audit opinion.

52. Preparing high-quality financial statements for the entire public sector is an evolutionary process and it will take time for the Government to achieve a ‘clean’ audit opinion on its EPS financial

[25] *Collecting Government Revenues*, Office of the Auditor General, September 2015.

statements. However, the Government does not have a plan for how it aims to achieve this. We note that the Government established the Performance Budgeting and Reporting Working Group in 2018. We encourage this group to identify the actions needed to improve financial reporting at the EPS level and work towards an unqualified (clean) audit opinion.

Recommendation 4: The Ministry of Finance and Economic Development should develop and implement an action plan to improve the quality of the entire public sector consolidated financial statements. The action plan should set out a roadmap for moving to a qualified audit opinion in the first instance and an unqualified audit opinion in the longer term.

ANNUAL REPORTS ARE PREPARED, BUT THERE IS SCOPE TO IMPROVE THEM AND TRANSPARENCY IS LIMITED, AS THEY ARE NOT BEING TABLED IN PARLIAMENT IN A TIMELY MANNER

53. IPSAS, the financial reporting framework used by all of core government entities, including EPS, and some SAGCs, provides guidance on how entities should report on service performance. The standards state that, 'An entity should present service performance information that is useful to users for accountability and decision making purposes. Presentation should enable users to assess the extent, efficiency and effectiveness of the entity's service performance. It should be appropriate to the entity's service performance objectives and make the relationship between the entity's service performance objectives and its service performance achievements clear.' IPSAS continues, 'When used in combination with the information in an entity's financial statements, service performance information should enable users to assess the entity's finances in the context of its achievement of service performance objectives and vice versa.'

54. In 2017, the PMFA was revised to reintroduce the requirement for annual reports from 2016–17. The PMFA states that all annual reports should include the financial statements for the year as well as a comparison of financial performance against approved budget. SAGCs' annual reports are required to provide a summary of the nature and scope of their activities and to report on the extent to which strategic goals and objectives and ownership performance targets were achieved. However, the PMFA does not require that core government entities or the EPS report any performance information, despite outputs and performance targets being set as part of the budget process.

55. All entities have produced an annual report to accompany their financial statements since 2016–17. However, the quality of these varies significantly and they do not provide all of the information required by IPSAS. This makes it difficult for readers to determine how financial performance and service performance are linked, if at all.

56. The PMFA does not require core government entities to report performance against output targets, despite these being set as part of the budgeting process. However, we found that some entities do report some performance against outputs. For example, in its 2016–17 the Ministry of Commerce,

Planning and Infrastructure (MCPI) reported on the quantity of outputs it delivered against budget in its annual report, although it did not include explanations for variances. However, in the two subsequent years, 2018 and 2019, MCPI reported performance but did not compare it with the outputs agreed in the budget. We found that, although most entities report some performance in their annual reports, they do not report performance against the target outputs that are set as part of the budget process. We reported in *Customs in the Cayman Islands* that the Customs Department measured performance in relation to the collection of coercive revenues and reported this monthly to MFED, but it did not collect information to measure performance against the outputs specified in the Plan and Estimates.[26] This gap in performance reporting reinforces the deficiencies in the current output-based approach as outlined in our *Improving Financial Accountability and Transparency: Budgeting* report.

57. SAGCs are required to report their performance against the strategic goals and objectives and ownership performance targets that are set out in their Ownership Agreements. However, we found that this does not always happen. For example, Cayman Airways Ltd (CAL) receives significant annual funding to provide strategic domestic air services and strategic tourism, regional and core air services and received a combined budget of $24.7 million for these two outputs in 2016-17. We found that CAL's 2016–17 annual report did not comment on its performance against these outputs.

58. Our most recent General Report on the 2019 financial statements reported again that there is no robust assessment of service performance information that demonstrates whether resources have been used in the most effective and efficient way or if expected outcomes have been achieved. It stated that the content of annual reports had improved but that entities needed to put greater focus on performance information.

59. The 2017 revision of the PMFA introduced the requirement for an annual report to be prepared for the EPS comparing performance with that set out in the Plan and Estimate for the year. We found that, although the 2016–17 EPS financial statements included information comparing actual financial performance with budget there was no discussion or analysis of performance against outputs or outcomes. The PMFA was also revised in 2017 to require that the annual reports of core government entities and the EPS state details of the activities during the year. However, it does not require any discussion and analysis of service performance against that agreed in budgets. This is a significant gap in accountability and does not meet the requirements of IPSAS, which are the accounting standards that the PMFA states that the Government is required to use.

[26] *Customs in the Cayman Islands*, Office of the Auditor General, May 2019.

60. As reported earlier, the Government introduced a performance reporting framework in 2019, which once implemented will help develop key performance indicators that will help entities monitor and report on their performance. However, it is not clear to what extent this new framework has been implemented across government.

Recommendation 5: The Government should ensure that all annual reports provide an assessment of performance against the outputs and outcomes that are agreed in budget documents, including an explanation for any variances.

THERE IS LIMITED MONITORING OF PERFORMANCE

61. The PMFA states that the Cabinet is responsible for monitoring the delivery of outputs that are specified in budget documents and ensuring that only when it is satisfied should payment be made. To achieve this entities should prepare schedules of outputs delivered including the sums requested for them, and this should be reviewed and approved by the relevant Minister (or equivalent).

62. However, this is not happening in practice. We found that, although the approvals are documented, there is a lack of robust review by CFOs of the invoices and supporting documentation submitted by entities for the payment of outputs, including the following:

- Some entities were paid one-twelfth of the annual appropriation every month without any supporting evidence.
- Some payments were based on submissions covering only some of the quantitative metrics outlined for an output but not all of them.
- Some payments were based on average unit costs covering all quantitative metrics for an output, although each output is likely to have a very different unit cost.

Recommendation 6: The Government should require each entity to submit evidence for the actual delivery of outputs, compared with targets agreed in budget documents, to support the disbursement of funds.

TRANSPARENCY AND ACCOUNTABILITY ARE LIMITED, BECAUSE ANNUAL REPORTS AND FINANCIAL STATEMENTS ARE NOT TABLED IN THE PARLIAMENT IN A TIMELY MANNER

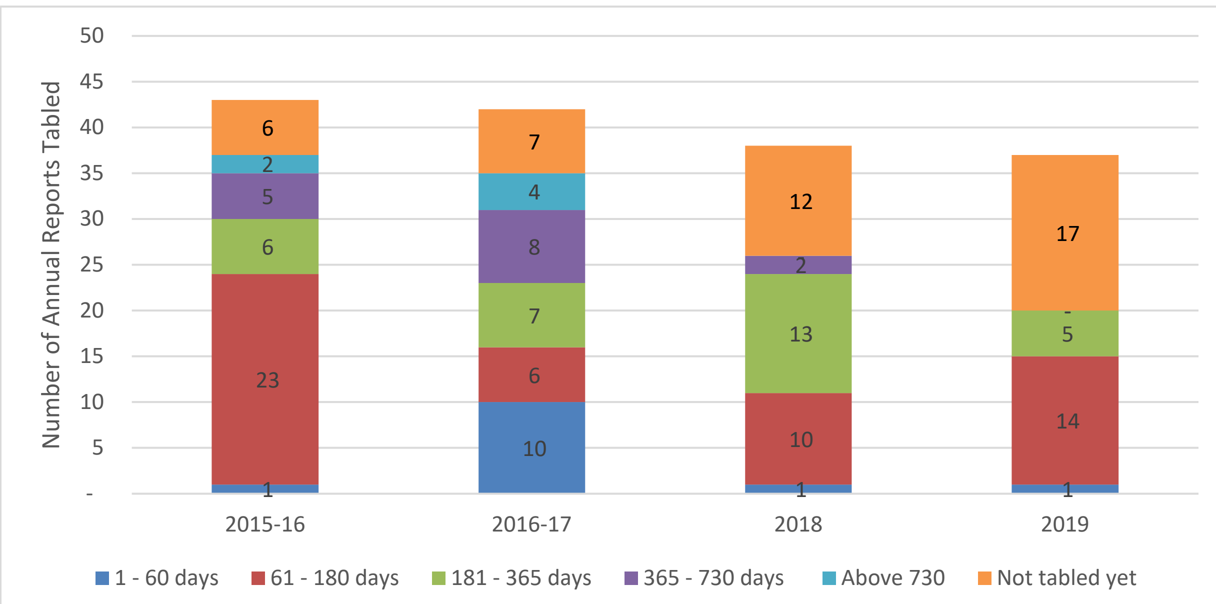
63. The PMFA requires that annual reports, including financial statements, be made public and tabled in the Parliament. This is a fundamental step in the accountability process. The PMFA states that audited financial statements should be presented to the Cabinet within five months of the year end (financial statements are required to be audited within four months of the year end), after which a member of Cabinet should present them to the Parliament at its next sitting.

64. Each ministry is responsible for ensuring that its annual report and financial statements, and those of the SAGCs it oversees, are laid before Parliament; MFED is responsible for tabling the EPS financial statements. However, based on the Parliament's Standing Orders, tabling can only happen while the Parliament is sitting.

65. We have previously reported that there are delays in the tabling of audited financial statements and this continues to be the case. As part of this audit, we raised this matter with the Financial Secretary and the Deputy Governor. This resulted in 36 sets of financial statements, including six financial statements for the 2018 financial year, being tabled in the then Legislative Assembly between July 2019 and January 2020. However, since then progress with the tabling of financial statements had regressed until the matter was followed up by the Financial Secretary in late 2020.

66. For the four financial years 2015–16 to 2019 only 74 per cent (118 of the 160 audits completed) of entities' financial statements had been tabled (Exhibit 4).[27] The General Report also found that financial statements had not been tabled on a timely basis; of the 118 financial statements tabled only 66 (56 per cent) of these were tabled within six months of the completion of the audit. At the end of February 2021, 17 annual reports and financial statements for 2019 had yet to be tabled.

Exhibit 4 – Annual Reports tabled in the Parliament, 2015–16 to 2019



Source: OAG analysis

[27] Note that these figures relate to four years from 2015–16 to 2019, compared with the remainder of this report, which covers the five-year period from 2014–15 to 2019. The figures have been updated since our General Report was published in December 2020.

67. This is a major gap in transparency and accountability, as essential information on public finances is not being made publicly available when it should be, and this inhibits scrutiny by the public and decision makers, such as Members of Parliament.

68. We note that MFED's strategic plan for 2021–2025 acknowledges the OAG's concerns about the timeliness of annual reports being tabled in the Parliament, and that it impairs accountability, governance and decision making, and has committed to continuing to work with the public sector to improve this.

69. The Parliament is based on the UK Westminster model. Our review of other Parliaments' Standing Orders found that reports and documents can be tabled throughout the year as part of routine operational business and that Parliament staff prepare daily business bulletins that list all reports and documents tabled that day and publish them on websites. This approach allows for timely tabling and publication of annual reports and financial statements, which improves transparency. We encourage the newly formed Parliament to consider adopting this approach.

Recommendation 7: The Government should ensure that annual reports and financial statements are tabled in the Parliament and made publicly available as soon as possible after the audit has been completed to improve transparency and accountability.

Recommendation 8: The Parliament should update its Standing Orders to allow reports, including annual reports and financial statements, to be tabled throughout the year and not only when the Parliament has a meeting.

THE GOVERNMENT PUBLISHES QUARTERLY FINANCIAL REPORTS, AND THESE COULD BE USED TO BETTER INFORM DECISION MAKING

70. In 2017, the PMFA was amended to reintroduce the requirement for the Government to prepare quarterly reports. The PMFA specifies the information to be included in the quarterly reports and states that they are due six weeks after the close of each financial quarter. The EPS Reporting Unit within the Treasury Department is responsible for preparing the quarterly reports, based on information submitted by entities.

71. The Government issued its first report for quarter 1 of 2018 within the required timescale of six weeks; all quarterly reports since then have also been published, or gazetted, on time. Our review of the quarterly reports found that they included more information than the minimum required, in that they presented analyses and, where available, updated forecasts.

72. We welcome the reintroduction of quarterly reports, as they provide interim financial information on the Government's finances during the year. However, it is not clear how, or if, they are used to inform decision making. For example, during 2018, all three quarterly reports showed revenues and surpluses that were significantly above the budget, but in December 2018 supplementary

appropriations were enacted to increase expenditure budgets. Our financial analysis found that most of the entities' budgets increased during the year, with the exception of the Ministry of Community Affairs. It is not clear why budgets would be increased when surpluses were forecast throughout the year, and all entities, except the Ministry of Commerce, Planning and Infrastructure, ended the year with a surplus, some of which were significant.

73. We acknowledge that 2020 was an exceptional year because of the COVID-19 pandemic, and this significantly affected public finances and made them harder to manage. However, we note that information provided to the Parliament and the public on public finances changed significantly during the year depending on the source of information. Our review of the quarterly reports found that they were reasonably consistent and could have been better used to inform decisions. For example, the quarter 1 report showed a surplus of $177.3 million; by quarter 2 the reported surplus had reduced to $79 million as a result of the pandemic, and this trend continued for the rest of the year. The quarter 3 report showed an overall deficit of $32.2 million for the entire public sector, and, in March 2021, the Minister for Finance stated that the unaudited figures for 2020 reported a deficit of $38 million, which is in line with the quarterly results. However, we noted that, in October 2020, the Minister for Finance reported to the Finance Committee of the Parliament that the projected deficit for 2020 was $168 million, and a number of supplementary appropriations were made based on this projection. It is not clear why the projected deficit in October 2020 of $168 million was so different from the deficit of $32.2 million reported for the end of September or the final outturn of $38 million. We acknowledge that the quarterly reports are unaudited figures, but they are based on financial information collated by MFED from all core government entities and SAGCs and we believe that they could be better used to inform decision making, including changes to budgets during the year.

74. Our review of some other countries found that they used real-time financial information to amend budgets in-year. For example, the Scottish Parliament carries out two formal budget reviews for the Scottish Government each year. These include reallocating budgets from one area to another, increasing budgets for some areas and reducing them for others. The Scottish Parliament also scrutinises the actual expenditure for the year compared with budgets set, and the results are fed into the budget setting process.

Recommendation 9: The Government should use quarterly reports to better inform decision making, including supplementary appropriations and revisions to future budgets.

TRANSPARENCY OF OTHER INFORMATION HAS IMPROVED BUT IS PATCHY

75. In 2013, we recommended that the Government should implement a range of measures to improve transparency across the public sector, particularly in relation to board members and senior staff and sensitive areas of expenditure. These included the following:

- Publication of all accountability documents, including strategic and operational plans, financial statements, annual reports, and both internal and external audit reports.
- Regular and timely publication of the travel and related expenses and hospitality and gifts given and received by Ministers, board members and senior managers on entity websites.
- Regular and timely publication of expenditures and contracts for amounts over predetermined thresholds.
- Publication of details of remuneration of Ministers, board members and senior officials.
- Publication on entity websites, or availability for inspection, of a register of interests of board members and senior managers.

76. We found that progress has been made in improving the transparency of some of this information, although disclosure is patchy and not always up to date. From our review of entity websites we found that no core government entities or SAGCs proactively disclosed information on the remuneration of senior managers, board members or Ministers. The two independent offices of the Auditor General and Ombudsman routinely disclose information on the remuneration of senior managers.

THE PUBLICATION OF ACCOUNTABILITY DOCUMENTS SUCH AS STRATEGIC PLANS AND ANNUAL REPORTS NEEDS TO IMPROVE

77. We found that strategic plans, where available, were published on entity websites but that in some cases these were out of date, for example the Education Strategy expired in 2017.

78. As reported previously, there have been delays in tabling annual reports and financial statements in the Parliament. This is the point at which they become public, and entities cannot publish them on their websites before they have been tabled. However, our review of entity and SAGC websites found that these bodies were not routinely publishing their annual reports and financial statements on their own websites even after they had been tabled in the Parliament.

79. The OAG publishes all performance audit reports, public interest reports and General Reports on its website as soon as possible after they have been issued to the Parliament. The OAG also publishes all reports to those charged with governance (International Standard on Auditing, ISA 260 reports) arising from the financial audit of every public body. The OAG's policy is that it will publish ISA 260 reports six months after the statutory deadline for the completion of that year's financial audits, that is, 31 October each year. We also found some examples of good practice in which public bodies had published audit reports and their responses to them on their websites. For example, the Ministry of Health, Environment, Culture and Housing had published the internal audit reports on the Department of Environmental Heath; the Ministry of Employment and Border Control had published Customs and Border Control's response to the OAG's report *Customs in the Cayman*

Islands; and the Port Authority had published the OAG's 2017 report on potential abuses and the authority's responses to the report.

Recommendation 10: The Government should ensure that all entities publish their annual reports, including financial statements, on their websites as soon as possible after they have been tabled in the Parliament.

GOVERNMENT POLICIES REQUIRE DISCLOSURE OF TRAVEL AND RELATED EXPENSES AND HOSPITALITY AND GIFTS, BUT THIS DOES NOT ALWAYS HAPPEN

80. The Government introduced a travel policy in July 2013 (revised July 2016), which is mandatory across core government. As part of the policy, Chief Officers, Deputy Chief Officers, Heads of Departments and Deputy Heads of Departments are required to publish information on their travel expenses in a standard format (set out in Appendix 5 of the policy). In 2017, we also reported that the Office of the Premier had adopted the travel policy and established guidelines on travel for Ministers and Councillors.[28]

81. The Government introduced a hospitality policy in June 2017. The policy requires that a record of hospitality received and offered is retained and disclosed in a standard format (set out in Annex A of the policy).

82. For the purposes of this audit, we reviewed the websites of all core government entities for the three years 2018–2020 to assess whether disclosures had been made in line with the policies. We found that entities are not consistently proactively disclosing information on travel and related expenses on their websites. Our review found that some entities had disclosed travel expenses information but others had not; some entities had disclosed travel expenses within their disclosures of credit card expenses. It is not clear whether some entities had no disclosures of travel expenses because there had been no travel or because they had simply omitted to make the disclosures. We also found that no entities had proactively disclosed information on hospitality or gifts received in line with the policy. We encourage all entities to regularly disclose travel expenses and hospitality and gifts received, including 'nil returns' if appropriate.

83. Many SAGCs have adopted the Government's policies. However, our review of the websites of ten SAGCs found that they were not disclosing information on senior managers' travel expenses and hospitality and gifts received.[29]

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[28] *Follow Up on past PAC Recommendations*, Office of the Auditor General, July 2017.

[29] SAGC websites reviewed were those of the Port Authority, Cayman Airways Limited, Cayman Islands National Insurance Company, Civil Aviation Authority of the Cayman Islands, Health Services Authority, Cayman Islands Monetary Authority, National Roads Authority, Tourism Attraction Board, Utility Regulation and Competition Office (OfReg) and Water Authority.

Recommendation 11: The Government should ensure that all entities regularly proactively disclose information on travel and related expenses, and on gifts and hospitality, including 'nil returns', as set out in its policies.

BETTER DISCLOSURE OF CONTRACTS AWARDED IS NEEDED

84. The Procurement Regulations that were brought into force in 2018 require public bodies to publish notices of awards of contracts after a procurement process.[30] The regulations set out the information that should be disclosed, for example the name of the successful bidder and total contract value. The publication method and timescale depend on the value of the contract. Entities should disclose information on contract awards for the majority of procurements within 30 days of the contract being awarded on a website designated by the Central Procurement Office. In the case of contracts valued at less than $10,000 entities should publish this information on their websites within one year of the contract being awarded.

85. We found that information on a large number of contracts is published on the Government's public purchasing portal (Bonfire). However, this generally relates to those procurements that were undertaken using Bonfire. It is not clear where information on contracts awarded outside Bonfire and valued at more than $10,000 should be published. From our review of entity websites we did not find evidence that information on contracts awarded was being proactively disclosed.

86. We also found that no entities were proactively disclosing information on expenditure over predetermined thresholds. However, we appreciate that this can be a time-consuming undertaking.

Recommendation 12: The Government should ensure that information on the award of contracts is published on relevant websites within the timescales specified in the Procurement Regulations.

PUBLIC OFFICIALS COMPLETE ANNUAL REGISTERS OF INTERESTS, BUT THESE NEED TO BE BETTER USED

87. In 1994, the UK Committee on Standards in Public Life published the seven principles of public life (known as the Nolan principles). The second principle is 'integrity', and it states that, 'Holders of public office must avoid placing themselves under any obligations to people or organisations that might try to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.' Since the introduction of the Nolan principles it has been common practice for public bodies to require their staff and any officials, including board

[30] Procurement Regulations 2018, section 19.

members and elected members, to complete an annual declaration of any interests. These declarations should be used by senior management and governing bodies to manage any potential conflicts of interest, which may involve excluding certain people from decision making or allocating work to ensure that there are no actual or perceived conflicts.

88. The OAG, and private firms auditing on its behalf, reviews notices of interests of senior managers and board members, and any related party transactions, as part of the annual financial audits of public bodies. We do this to ensure that information disclosed in the financial statements is accurate and that there have been no conflicts, particularly in relation to the awarding of public contracts. With the exception of the Office of the Ombudsman and the OAG, registers of interests are not generally published, although they are available for inspection. However, we found from our financial audits that there is a general lack of understanding about the purpose of notices of interests. Many public bodies believe that they are completed for the purposes of audit only. This is not the case; public bodies should use the completion, review and assessment of notices of interest of key managers and board members to manage their businesses to avoid any perceived or actual conflicts of interests.

89. The *Standards in Public Life Act 2014*, the 2016 Amendment and the related Standards in Public Life Regulations were brought into force on 1 March 2020. The Act refers to the seven principles of public life and requires all those in public life to declare their interests, income, assets and liabilities to the Commission for Standards in Public Life on an annual basis.[31] However, the *Standards in Public Life Act* and related Regulations have certain requirements that may limit public bodies' ability to effectively manage any potential conflicts of interest and also limit the transparency and appropriate disclosure of information. The 2020 financial year is the first time that the Act has been applied, and we have identified the following issues through the audits of the 2020 financial statements:

- The Act requires declarations for the year ended 30 June, whereas auditors require declarations that cover the entire financial year, that is, the year ended 31 December. This means that all senior managers and officials now need to complete two declarations each year. This is duplication of effort. It should be noted, however, that the information required for audit is not as extensive as the declarations required by the Act. The Act requires declarations to contain information on wealth and source of funds; this is personal data and not relevant for business management or audit purposes.

[31] People in public life includes Members of the Legislative Assembly (now Parliament), senior civil and public servants (including Chief Officers, Deputy Chief Officers, CFOs and Deputy CFOs, heads of departments, sections or units and their deputies, Chief Executives of SAGCs), board members of SAGCs, Commission members, and people holding a full or part-time position in a public authority that may have a conflict or perceived conflict.

- The Act states that the Commission for Standards in Public Life is to maintain the Register of Interests and make it available for inspection at its offices during normal working hours. The Regulations state that, although inspection is allowed, making copies is not permitted.
- We understand from discussions with the Commission Secretariat that its view is that because of personal information, public entities cannot retain copies of the declarations made and submitted by individuals as at 30 June each year. However, in our view, notices of interest, excluding wealth information, are essential information for managing potential conflicts of interest and should be used to inform business decisions and enforce good governance.

Recommendation 13: The Government should amend the *Standards in Public Life Act* to require notice of interest forms to cover the entire financial year and should ensure that relevant information from these can be retained and used by public bodies to manage any potential conflicts of interest.

ANTI-FRAUD POLICIES HAVE BEEN ADOPTED, BUT REGULAR REFRESHER TRAINING IS NEEDED

90. In May 2017, the Government introduced an anti-fraud policy to facilitate the development of controls that aid in the detection and prevention of fraud against the Government. To support the roll-out of the policy the Government developed fraud awareness training for civil servants, which is available through the Degreed.com training platform. The Government also launched a whistle-blower hotline and anti-fraud policy website (fraud.gov.ky). The policy and supporting activities have gone a long way to increasing awareness and improving the culture and processes in relation to fraud and corruption, but the messages need to be emphasised regularly. We recommended in our 2018 report *Fighting Corruption in the Cayman Islands* that the Government should ensure that all civil servants had completed the fraud awareness training and that it should be completed regularly.[32] The Government Minute of June 2020 that responded to the Public Accounts Committee's report stated that this recommendation had been accepted and that anti-fraud training would be incorporated into the Government's induction training. We have been told that all new starts are informed of the anti-fraud training at their induction and directed to where it can be found. The Government's policy has also been adopted by most SAGCs.

Recommendation 14: The Government should make anti-fraud training a mandatory annual requirement for all civil servants and all staff in statutory authorities and government companies.

[32] *Fighting Corruption in the Cayman Islands*, Office of the Auditor General, November 2018.

FINANCIAL PERFORMANCE

91. Financial performance measures the overall financial health of an organisation. It is essential that financial performance is monitored and reported regularly, as this supports sound decision making and accountability, helps manage risks and can be used to identify any weaknesses, strengths and opportunities for making efficiency savings.

92. This chapter reports on the high-level financial performance of the entire public sector and core government for the five years from 2014–15 to 2019. Information and findings are based on our analysis of the consolidated EPS financial statements. As reported earlier, at the time of preparing this report the audits of the EPS financial statements for 2018 and 2019 were incomplete; figures are therefore unaudited and subject to change, and the EPS financial statements for the three years 2014–2015 to 2016–17 had adverse audit opinions.

93. Where appropriate, we differentiate between the financial performance of the entire public sector and core government. This is important because the PMFA sets out different requirements for each. Core government entities' financial statements include only those transactions that relate to the cost of administering government programmes and activities. They do not cover executive financial transactions that are reported only in the EPS financial statements.[33]

94. More detailed analysis and commentary on the financial performance of core government entities and SAGCs are included in the General Report on 2019 financial statements.

CABINET IS RESPONSIBLE FOR MANAGING THE FINANCIAL PERFORMANCE AND POSITION OF CORE GOVERNMENT

95. As reported earlier, the PMFA was amended in 2012 to include the FFR that was agreed between the Cayman Islands Government and the UK Government in November 2011; the FFR remains in place. The FFR aimed to restore prudent fiscal management and set out the following five components of the Government's fiscal strategy:

- controlling government expenditure;
- limiting new borrowings;
- re-aligning the revenue base;
- improving the performance of SAGCs; and

[33] A definition of executive transactions is provided in the glossary on page 7.

- reducing costs by working in partnership with the private sector.

96. The PMFA states that the Cabinet should manage the performance and financial position of core government, and that policies and decisions of the Cabinet should be consistent with the principles of responsible financial management. Section 14 of the PMFA prescribes the following six principles of responsible financial management for core government:

    - Total expenses should be less than total revenues, that is, an operating surplus.
    - Total assets less total liabilities should be positive, that is, net worth should be positive.
    - The cost of borrowing should not be more than ten per cent of revenue. The cost of borrowing is calculated for each financial year as the sum of interest, other debt servicing expenses and principal repayments.
    - Net debt should be no more than 80 per cent of revenue.
    - Cash reserves should be sufficient to cover at least 90 days of estimated expenses.
    - Financial risks, including contingent liabilities, should be managed prudently.

97. The Government sets out the expected performance against each of the six principles of responsible financial management in its Strategic Policy Statements (SPSs) as part of the budget process. Our review of SPSs for the years 2014–15 to 2019 found that the Government planned to comply with these principles each year with a few exceptions (Exhibit 5). When setting the budget for 2014–15 the Government did not expect to comply with two principles – debt servicing costs and cash reserves. For the financial year 2019, the Government did not expect to comply with the principle on debt servicing cost; it noted that this as a technical non-compliance because of the planned repayment of some debt that year.

Exhibit 5 – Forecast compliance with the six principles of responsible financial management

	2014–15 forecast	2015–16 forecast	2016–17 forecast	2018 forecast	2019 forecast
Operating surplus **should be positive**	Surplus = $123.463 million **Complies**	Surplus = $124.529 million **Complies**	Surplus = $44.919 million **Complies**	Surplus = $81.497 million **Complies**	Surplus = $54.068 million **Complies**
Net worth (i.e. total assets less total liabilities) **should be positive**	Net worth = $1.465 billion **Complies**	Net worth = $1.694 billion **Complies**	Net worth = $1.746 billion **Complies**	Net worth = $1.313 billion **Complies**	Net worth = $1.355 billion **Complies**
Cost of borrowing **no more than 10% of revenue**	Debt servicing = 16.1% **Does not comply**	Debt servicing = 9.8% **Complies**	Debt servicing = 9.7% **Complies**	Debt servicing = 8.9% **Complies**	Debt servicing = 48.2% **Does not comply***
Net debt **no more than 80% of revenue**	Net debt = 51.4% **Complies**	Net debt = 49.6% **Complies**	Net debt = 43.3% **Complies**	Net debt = 21.5% **Complies**	Net debt = 18.2% **Complies**
Cash reserves **no less than 90 days**	Cash reserves = 41.0 days **Does not comply**	Cash reserves = 96.3 days **Complies**	Cash reserves = 140.2 days **Complies**	Cash reserves = 175.3 days **Complies**	Cash reserves = 91.7 days **Complies**
Financial risks	**Complies**	**Complies**	**Complies**	**Complies**	**Complies**

*Note: *Technical non-compliance because of scheduled repayment of debt*

Source: OAG analysis of 2014/15, 2015/16, 2016/17 and 2018 Strategic Policy Statements

98. However, we found that the Government does not report its actual performance against these principles in a timely manner. The Government reports its performance against the principles in the annual report for the entire public sector. As outlined previously, the EPS financial statements audits for 2018 and 2019 have yet to be completed. We found that although the audit of the 2016-17 EPS financial statements was completed in September 2019 the annual report for the entire public sector had not yet been tabled in the Parliament. We also noted from our review of the 2016–17 annual report that the figures used to report performance against the principles had not been updated to match the figures in the audited EPS financial statements. It is important that there is

clear and transparent reporting of the actual performance against the principles (and forecasts), as they are the cornerstone of the Government's approach to prudent financial management.

99. For the purposes of this report, we analysed the EPS financial statements for the five years 2014–15 to 2019 (audited for the first three years and unaudited for 2018 and 2019) and calculated performance against each of the principles. We discuss core government's performance against five of the principles below. We were unable to comment on whether the PMFA requirement that cash reserves be maintained at a level no less than the estimated executive expenses for the following 90 days had been met. This is because the requirement needs to be calculated on an ongoing basis and not just at the year end. We did not have sufficient information to re-calculate the requirement.

Recommendation 15: To clearly demonstrate compliance with the *Public Management and Finance Act*, including requirements of the Framework for Fiscal Responsibility, the Government should:

- **a) Report interim performance against the principles of financial management, using unaudited financial information, when it announces the unaudited results for the financial year.**
- **b) Report performance against the principles in its annual report for the entire public sector, ensuring that figures have been updated to reflect the audited financial statements for the entire public sector.**
- **c) Provide explanations for any non-compliance.**

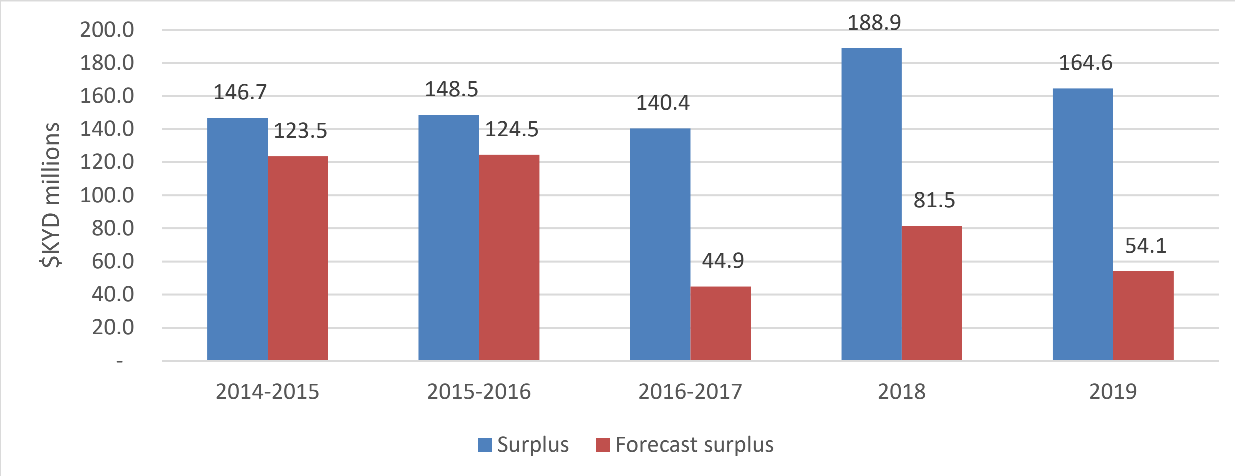
ANNUAL SURPLUSES HAVE BEEN GENERATED IN EACH OF THE LAST FIVE YEARS

100. The entire public sector has made healthy surpluses in each of the five years to 2019, ranging from $140.4 million to $188.9 million, equivalent to 10–17 per cent of total revenues generated. At the end of 2019, the entire public sector reported an accumulated surplus of $617.4 million.

OVERALL CORE GOVERNMENT HAS MADE A SURPLUS IN EACH OF THE LAST FIVE YEARS

101. The first principle of responsible financial management set out in the PMFA is that total core government expenses should be less than total core government revenue, that is, there should be an operating surplus. Exhibit 6 shows that the core government reported a surplus in each of the five years from 2014–15 to 2019. Annual surpluses ranged from $140.4 million to $188.9 million, equivalent to between 14 and 23 per cent of core government revenues collected.

Exhibit 6 – Core government surplus vs forecast surplus, 2014–15 to 2019



Note: 2016–17 covered an 18-month period so is not directly comparable with other years.

Source: OAG analysis of EPS financial statements (2018 and 2019 amounts unaudited) and SPSs

102. Exhibit 6 also shows that the actual performance is consistent with the Government's forecasts that it would comply with this principle in each of the five years from 2014–15 to 2019. However, the actual surpluses achieved each year were significantly higher than forecast. In 2014–15 and 2015–16, actual surpluses were over $20 million higher than forecast. In each of the three years 2016–17 to 2019, the actual surplus was around $100 million higher than forecast. We concluded in *Improving Financial Accountability and Transparency: Budgeting* that the estimates of coercive revenues needed to improve, as these had been consistently significantly underestimated, and this had contributed to large surpluses.

103. As a result of annual surpluses, core government had accumulated surpluses of $770 million by the end of 2019. The Government used these reserves to pay off the bullet bond in late 2019 (discussed later) and make additional contributions in to the pension fund to reduce its defined benefit net liability. The accumulated surplus and cash reserves also helped the Government withstand the economic shock arising from the global COVID-19 pandemic.

MOST CORE GOVERNMENT ENTITIES MADE OPERATING SURPLUSES IN EACH OF THE LAST FIVE YEARS

104. Although core government made an overall surplus each year, we reported in the most recent General Report that the financial performance of core government entities varied over the four financial years, 2015–16 to 2019. Most core government entities made annual surpluses, but some entities reported a deficit in some years. For example, MCPI reported a deficit in three of the four years.

105. Most core government entities plan to at least break even each year. However, our analysis shows that actual financial performance is often very different from what was budgeted. We identified the

following issues from our analysis of actual financial performance against budget for the four years 2015–16 to 2019:

- Some entities' budgets were increased, but they underspent against their original budget. For example, in 2019, POCS's expenditure budget was increased, but it spent less than the original budget.
- Some entities' budgets were increased, but they underspent against their revised budget. For example, in 2019, the Ministry of District Administration, Tourism and Transport's expenditure budget was increased; although it spent more than the original budget, the entity spent less than the final budget.
- Some entities' budgets were increased, but they ended the year with a deficit. For example, in 2019, MCPI's revenue and expenditure budgets were increased, but the actual outturns for both were similar to the original budget.
- Personnel costs were consistently underspent across core government, with most entities underspending in this area across the four years. We found that, in many cases, personnel budgets had increased during the year, but entities often spent less on personnel costs than the original budget. The explanations provided in financial statements attribute this underspending to a continuing number of unfilled vacancies and delays in recruitment.

As reported earlier, quarterly reports that include up-to-date information on financial performance could be better used to inform decision making about in-year budget changes.

THE FINANCIAL PERFORMANCE OF SAGCS IS MIXED

106. Overall, SAGCs made a combined surplus in four of the five years 2014–15 to 2019. Our General Report on the 2019 financial statements reported that the financial performance of individual SAGCs had varied year on year. Only four SAGCs had consistently reported an annual surplus – Cayman Islands Airport Authority, Cayman Islands Stock Exchange, the Civil Aviation Authority and the Segregated Insurance Fund.[34] Over the same period, six SAGCs had consistently recorded annual deficits – Cayman National Cultural Foundation, Cayman Turtle Conservation and Education Centre Ltd, Cayman Islands National Insurance Company, National Housing Development Trust, Public Service Pensions Board and Sister Islands Affordable Housing Development Corporation.[35]

[34] At the time of preparing this report, the Cayman Islands Airport Authority's financial statements for 2016–17, 2018 and 2019 were unaudited.
[35] The Public Service Pensions Board made an operating deficit in each year, although the financial performance of the pension funds varied.

107. For the most recent (2019) financial year, SAGCs reported a combined deficit of almost $5.5 million; 14 SAGCs made surpluses, while the remaining 12 recorded operating deficits. Of the 14 SAGCs making surpluses in 2019, four SAGCs made surpluses of more than $5 million; the Cayman Islands Airport Authority reported the largest surplus ($11.5 million), although this is unaudited. Seven SAGCs made surpluses of more than ten per cent of their total revenue. Of the 12 SAGCs reporting deficits in 2019, three recorded deficits of more than $5 million; the Health Services Authority had the largest deficit at $23 million, and six SAGCs reported deficits of more than ten per cent of their total revenue.

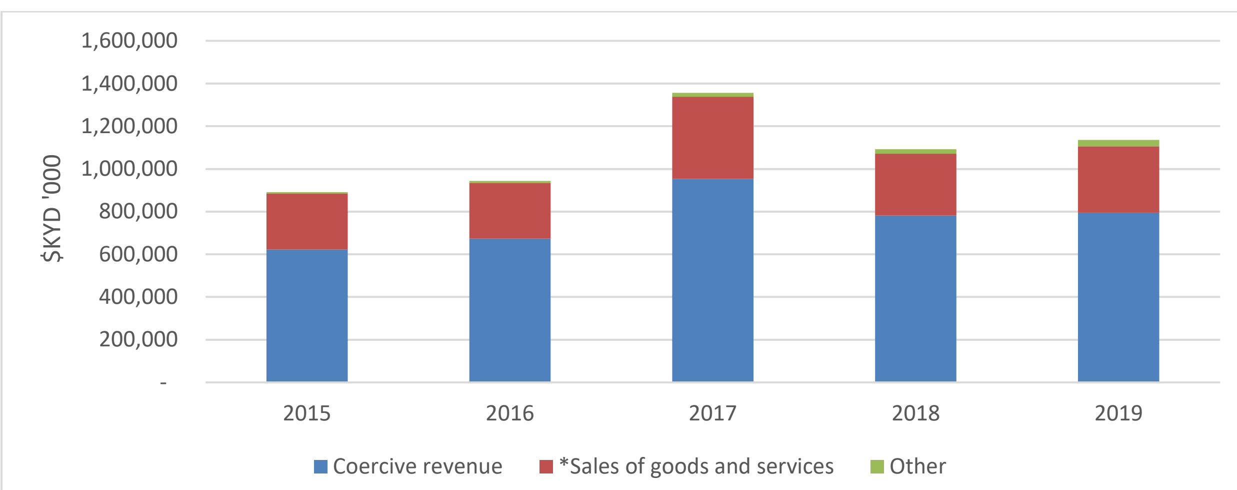
REVENUES INCREASED BY AROUND 30 PER CENT OVER FIVE YEARS

108. The Cayman Islands does not raise direct taxes. However, the public sector generates revenues to pay for services from a range of sources, including coercive revenues, for example import duties and work permit fees, and fees and charges for services.

109. As reported earlier, the EPS financial statements include executive transactions that are not reported elsewhere, that is, they are not included in the financial statements of core government entities or SAGCs. The lack of supporting documentation for revenues, and management being unable to attest to the completeness of coercive revenues, is one of the factors that contributes to the adverse audit opinion on the EPS financial statements.

110. Over the five-year period, 2014–15 to 2019, revenues for the entire public sector increased by 27 per cent from $891 million to $1,136 million (Exhibit 7). Over the same five-year period, core government's total revenues increased by 31 per cent from $659.6 million to almost $862 million.

Exhibit 7 – Entire public sector revenues, 2014–15 to 2019



*Note: *Sales of goods and services includes fees and charges, general sales, rental income and other sales*
Source: OAG analysis of EPS financial statements (2018 and 2019 amounts unaudited)

111. The Government's main sources of revenues are coercive revenues. In 2019, the Government generated a total of $795 million in coercive revenues (70 per cent of total revenues), an increase of 28 per cent over the five-year period. The largest sources of coercive revenues in 2019 were:

- import duties ($193 million; 24 per cent of total coercive revenue);
- company registration fees ($182 million; 23 per cent); and
- work permits and other immigration fees ($100.4 million; 13 per cent).

112. The public sector also generates significant revenues from the 'sales of goods and services'. These revenues include fees and charges, general sales, rental income and other sales. Core government generates some of this revenue from the range of services that it provides, for example application fees that relate to work permits, fees for drivers' examinations and fees for police clearance certificates. However, the majority of this type of revenue is generated by SAGCs and includes, for example, patient service fees, travel taxes and fees for air and cruise passengers, cargo handling fees, safety regulation fees for aircraft and marine vessels, and financial services registration and licensing fees. In 2019, a total of $311.2 million was generated from such goods and services (27 per cent of total revenues). Over the five-year period, 2014–15 to 2019, revenue from the sale of goods and services across the entire public sector increased by 19 per cent.

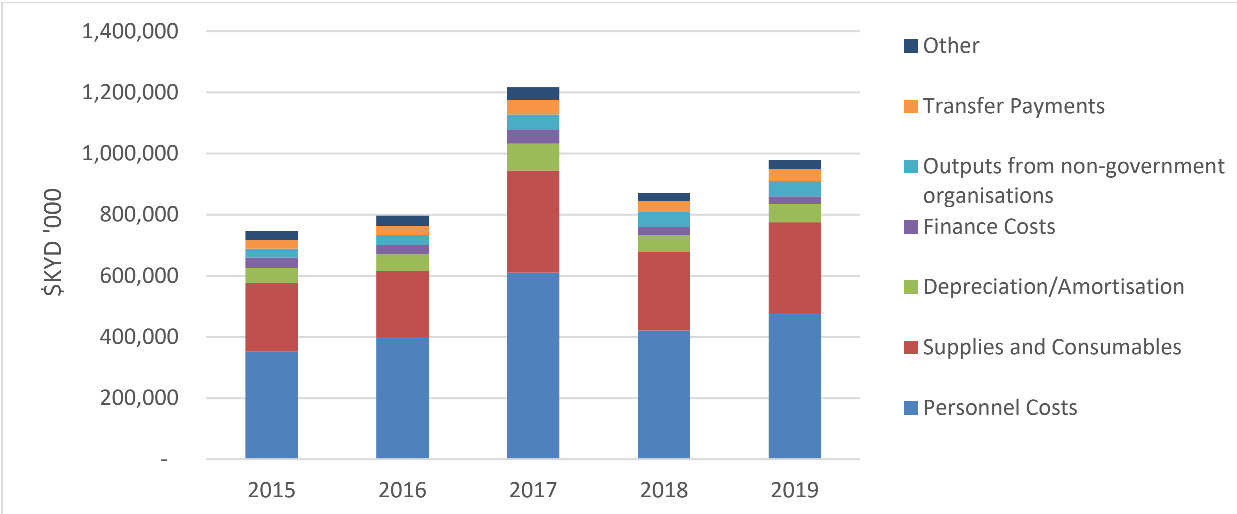
EXPENDITURE HAS INCREASED BY OVER 30 PER CENT IN THE FIVE YEARS TO 2019

113. The entire public sector (core government and SAGCs) spends money on a range of inputs, for example personnel costs and supplies and consumables, to deliver a range of outputs, programmes and services that are specified in budget documents.

114. The EPS financial statements include a number of executive transactions that are reported only at this level, that is, they are not reported in core government entities' or SAGCs' financial statements. Executive expenses include transfer payments such as social welfare, grants and scholarships, payments to voluntary bodies (known as non-governmental suppliers), and other executive expenses, including Members of Parliament's allowances, judiciary expenses, insurance and contributions to international organisations such as the Caribbean Financial Action Task Force.

115. Over the five-year period, 2014–15 to 2019, expenditure for the entire public sector increased by over 31 per cent from $746.4 million to $979.2 million (Exhibit 8). The majority of this expenditure relates to core government. Over the same period, core government's total expenditure increased by 32 per cent from $537.6 million to $707.5 million a year.

Exhibit 8 – Entire public sector expenditure, 2014–15 to 2019



Note: 2016–17 was an 18-month period so is not directly comparable with other years

Source: OAG analysis of EPS financial statements (2018 and 2019 amounts unaudited)

116. The vast majority of expenditure is on personnel costs and supplies and consumables: more than 75 per cent each year. Over the five-year period, 2014–15 to 2019, finance costs decreased by 25 per cent to $24.9 million in 2019. However, all other types of expenditure (including executive expenses) increased to varying extents as follows:

- Personnel costs accounted for $479 million in 2019, almost half of the entire public sector expenditure. Over the five-year period personnel costs increased by 36 per cent as a result of both an increase in public service staff and pay awards. Between 1 July 2014 and the end of 2018 the size of the public sector increased by ten per cent from 5,846 to 6,429 staff.[36] During this period, the Government also made a number of pay awards, including pay stagnation awards to teachers and police officers in 2015–16, a one-off pay stagnation remedy for some civil servants in December 2017 and a five per cent cost of living award in 2018.[37] Many SAGCs also made pay awards during this period. However, as reported earlier, core government entities generally underspent their budget for personnel costs.

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[36] Based on data from the Annual HR Reports published by the POCS. At the time of preparing this report, the Annual HR Report for 2019 had not been published.
[37] A further five per cent cost of living award was made on 1 January 2020.

- Expenditure on supplies and consumables amounted to $297 million in 2019, an increase of $73.3 million (33 per cent) since 2014–15. This includes expenditure on the purchase of services, which may be affected by increases in the population, and supplies and utilities, which will have been affected by inflationary price increases.
- Expenditure on depreciation and amortisation was $59.4 million in 2019, an increase of 17 per cent over the five years. The reason for this increase is not entirely clear, as the value of property, plant and equipment reduced over the same period. Although we are aware that the reported value of the roads network reduced significantly over this period, this is one of the issues that has contributed to the adverse audit opinion on the EPS financial statements.
- The Government paid $50 million to non-governmental organisations (NGOs) for outputs in 2019; an increase of over of 70 per cent over the five-year period. Payments to NGOs include, for example, legal aid and grants to private schools. The largest element of NGO expenditure is for tertiary care provided overseas, which was $35.8 million in 2019 (71 per cent of the total payments to NGOs); expenditure on this increased by 113 per cent over the five-year period.
- Transfer payments increased by 45 per cent to $39.5 million in 2019. Transfer payments include social assistance benefits, such as poor relief payments and vouchers and ex-gratia payments to seamen and ex-servicemen, and local and overseas scholarships and bursaries. Scholarship and bursary payments increased by 28 per cent over the five-year period to $11.5 million in 2019. Over the same period, expenditure on a number of other transfer payments increased significantly, including poor relief payments (increased by 45 per cent to $8.6 million in 2019), poor relief vouchers (173 per cent increase to $1.8 million) and ex-gratia payments to seamen (19 per cent increase to $7.7 million).
- Other expenditure, which includes leases and other executive expenses such as insurance and expenses for the Judiciary and Court of Appeal, varied year on year but over the five-year period remained relatively constant at around $30 million a year.

CORE GOVERNMENT HAS SUFFICIENT ASSETS TO COVER LIABILITIES, BUT THE FULL LIABILITY FOR RETIREMENT BENEFITS IS NOT REPORTED

117. The Government and wider public sector own a range of assets that are used to deliver public services. These include land; infrastructure such as roads and water and sewage treatment facilities; buildings such as schools, hospitals, airports, prisons and police stations; equipment such as vehicles, aircraft, firefighting appliances, medical equipment and computer equipment; and intangible assets such as IT (information technology) software. The public sector also holds cash and cash equivalents, investments and inventory.

118. It is normal for the public sector to also have liabilities. Some of these are due in the short term, such as money owed to suppliers (for goods and services provided during the year but not yet paid for) and staff (for unused annual leave and compensatory time accrued at the year-end). However, it

will also have long-term liabilities, including borrowings and retirement benefits such as pension and ongoing healthcare benefits, which are generally more financially significant.

119. It is important that the Government and wider public sector measure and report the full value of their total assets and liabilities, but the full value of long-term liabilities is not reported. This is essential information for decision makers and can support long-term financial planning and ensure that decisions made do not adversely affect financial sustainability in the longer term. Our third report in this series will focus on long-term financial sustainability.

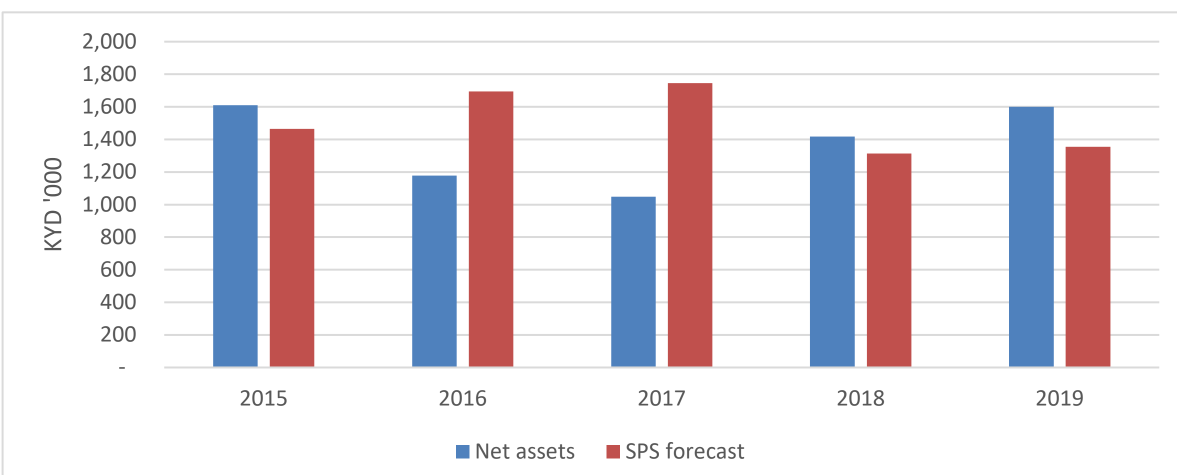
THE ENTIRE PUBLIC SECTOR HAD NET ASSETS OF $1.6 BILLION AS AT THE END OF 2019

120. As at 31 December 2019, the entire public sector had total assets valued at almost $2,981 million, an increase of ten per cent over the five years from 2014–15 to 2019, and total liabilities of $1,381 million, which increased by 26 per cent over the same five-year period. At the end of 2019, the entire public sector reported net assets of $1,600 million. The entire public sector has consistently reported a net asset balance over the five-year period, although the balance has fluctuated.

CORE GOVERNMENT ENTITIES HAVE SUFFICIENT ASSETS TO COVER LIABILITIES

121. The second principle of responsible financial management, as defined in the PMFA, is that core government entities have a positive financial position, that is, total assets should be more than total liabilities. Our analysis found that over the five-year period, 2014–15 to 2019, core government had positive net assets each year (Exhibit 9). At the end of 2019, core government had total assets of $2,470 million and total liabilities of around $870 million, resulting in reported net assets of $1,600 million.

Exhibit 9 – Core government net assets vs SPS forecasts, 2014–15 to 2019



Source: OAG analysis of EPS financial statements (2018 and 2019 amounts unaudited) and SPSs

122. Exhibit 9 also shows that reported financial performance of core government's net assets is in line with the SPS forecasts that net worth would be positive in each of the years. However, the actual performance differs from that forecast in each year, and the total net assets are higher in some years and lower in others.

WHEN THE FULL OBLIGATION FOR RETIREMENT BENEFITS IS INCLUDED CORE GOVERNMENT ACTUALLY HAD A NET LIABILITY POSITION IN MOST YEARS

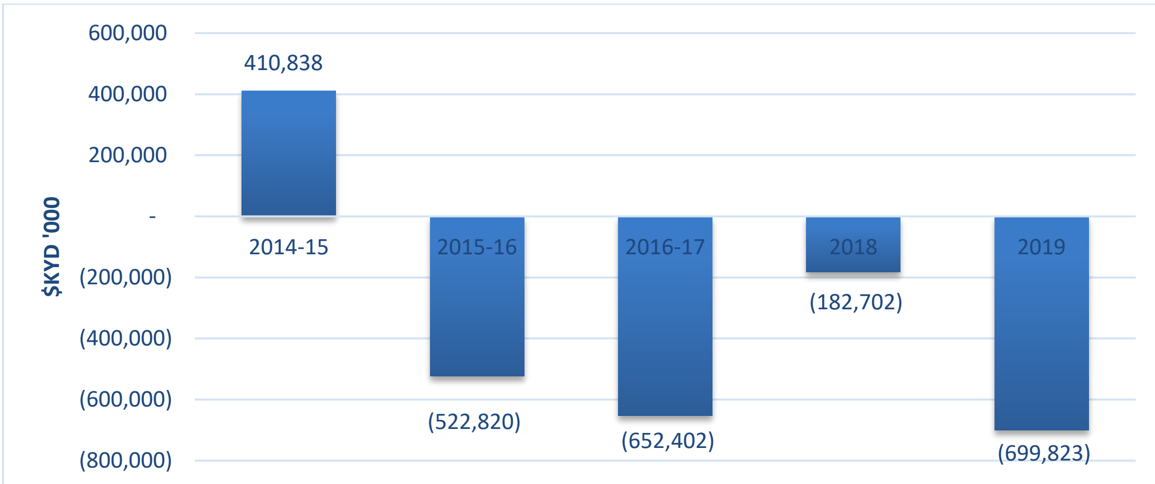
123. However, the actual value of liabilities is significantly higher, as the EPS financial statements do not report the full cost of the obligation for post-retirement healthcare. This is one of the issues that has contributed to an adverse audit opinion on the EPS financial statements.

124. The Government reported a liability of around $260 million for post-retirement healthcare costs in the 2019 EPS financial statements, which relates to the liability reported by some SAGCs. However, in the notes to the EPS financial statements there is an additional figure of $2.3 billion disclosed, which is the actuarial valuation of the healthcare liability for core government for 2019.

125. It is worth noting that the liabilities for both retirement benefits (pensions) and post-retirement healthcare costs are due in the very long term as civil servants and public servants retire. This means that they are due to be paid over the next 30 to 50 years and do not create a short-term risk for the Government or wider public sector. Both of these liabilities are subject to regular valuations, which means that the value may fluctuate from year to year and the overall liability remains significant. The accounting standards also require that the full liability is disclosed; compliance with these is a requirement of the PMFA. It is therefore important that this full liability is reported in the financial position (balance sheet). We have previously recommended this in our ISA 260 reports on the EPS financial statements and encourage the Government to act on this as soon as possible.

126. Our analysis of the figures shows that including the full likely cost of the healthcare liability moves the overall financial position from net asset to net liability in four of the five years from 2014–15 to 2019 (Exhibit 10). It shows that, at the end of 2019, core government had a net liability of around $700 million rather than the reported net assets of $1,600 million.

Exhibit 10 – Core government net assets, including the full obligation for post-retirement healthcare costs, 2014–15 to 2019



Source: OAG analysis of EPS financial statements (2018 and 2019 amounts unaudited)

Recommendation 16: The Government should report the full value of the post-retirement obligations, including pension and healthcare, in the financial statements of the entire public sector.

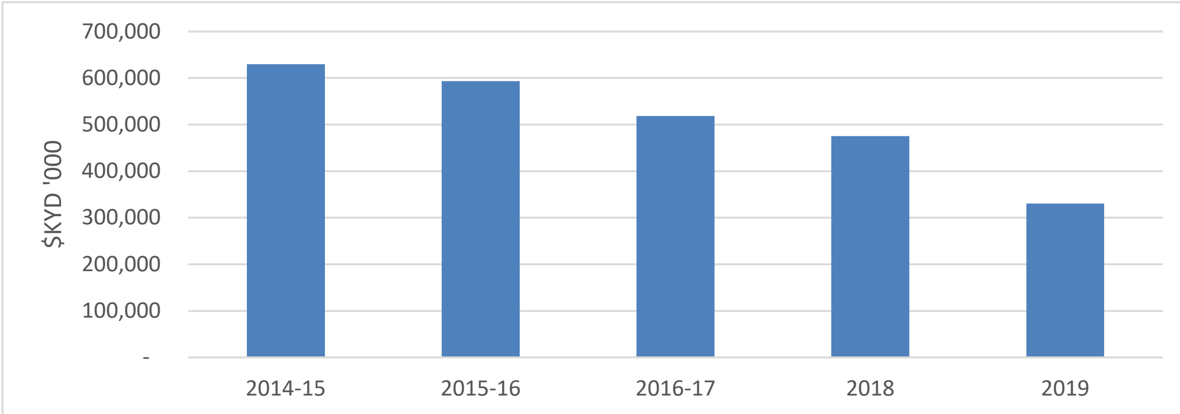
GOVERNMENT BORROWING HAS REDUCED SIGNIFICANTLY AND THE COST OF BORROWING HAS FLUCTUATED

127. Many governments and public sector bodies borrow money for a range of reasons, for example to pay for major capital projects, and borrowing can take a number of forms, for example loans or public–private partnerships (PPPs). However, it is important that the amount of borrowing is limited so that it is affordable in the short, medium and longer terms.

GOVERNMENT BORROWING HAS REDUCED SIGNIFICANTLY

128. Our analysis shows that, over the five years 2014–15 to 2019, total borrowings reduced year on year. Exhibit 11 shows that total borrowing reduced significantly over this period from around $630 million at 30 June 2015 to $330 million at 31 December 2019. The largest reduction in borrowing was in 2019 when the Government repaid $261.3 million of its bullet bond. In November 2019, the Government also refinanced $153 million of debt with an amortising loan.

Exhibit 11 – Total government borrowing, 2014–15 to 2019



Source: OAG analysis of EPS financial statements (2018 and 2019 amounts unaudited)

129. By the end of 2019, the vast majority of borrowing related to core government borrowing ($284.4 million). The remainder related to the Cayman Islands Development Bank ($15.8 million), National Housing Development Trust ($11.1 million) and Cayman Airways Limited ($18.8 million).

130. Although government borrowing has reduced significantly in recent years, it is worth noting that the Government took decisions during 2020, as a direct result of the COVID-19 pandemic, which may increase future borrowing levels. These include the following:

- In June 2020, the Government arranged a stand-by line of credit of $330.5 million from a consortium of local banks. This line of credit is to provide additional resources, if needed, to mitigate the effects of the Government's loss of revenue and increased expenditure related to COVID-19. After 18 months, any amount advanced and not repaid will be converted to a 15-year fixed-interest rate (3.25 per cent) amortising loan. The cost of putting the line of credit and long-term loan in place was approximately $1.97 million.
- In October 2020, the Finance Committee, of the then Legislative Assembly, approved the Government's granting of an interest-free temporary loan of $20.9 million to the Cayman Islands Airport Authority (CIAA) to meet ongoing operational and capital obligations while it sought the UK Government Foreign, Commonwealth and Development Office's approval for a third-party loan that CIAA had obtained. CIAA needed the loan because it was not able to collect revenues from its passenger facility charges, as the airports had been closed since mid-March 2020 as part of the Government's strategy for managing the pandemic.[38]

[38] At the time of this report (May 2021), the Government had not drawn on the line of credit and the borders remained closed.

131. We previously reported in *Major Capital Projects Follow Up* that the Government was considering PPP agreements for some major capital projects.[39] These agreements are forms of borrowing and will add to total government debt.

132. On 26 March 2021, the Government signed its first PPP agreement for the design, build, finance and maintain (DBFM) of a new integrated solid waste management system beside the George Town landfill site. As part of the agreement, the contractors will pay for the construction of the new facility, which is estimated to cost around $205 million, and once operational the Government will pay fees of $163 per ton of waste processed to the contractor over the life of the 25-year contract. The total cost that the Government will pay for the contract is not known at this stage, but the most recently published data show that in 2019 over 133,000 tons of waste was managed at the Cayman Islands' three landfills. [40] This could result in payments to the contractor of around $21.7 million a year, equivalent to over $542 million over the life of the project.

133. The FFR, in the PMFA, sets out requirements in relation to PPPs, specifically to demonstrate value for money. The FFR states the following:

- The Government should retain independent advice for all capital projects with a lifetime value above $10 million and for those where PPPs are considered.
- PPPs should be considered only where there is a sound appraisal, the financial appraisal demonstrates improved value for money against a conventionally financed alternative, long-term affordability has been assessed and agreed by the appropriate (independent) technical experts, and an independent opinion has been received from a qualified accountant on the correct accounting treatment in the financial statements.
- All proposed capital projects with a lifetime value of $10 million or more will be incorporated in the published SPS, and appraisals will be published for public consultation before procurement.

134. An outline business case (OBC) for the project was prepared by an independent consultant, and issued for public consultation, in 2016. The Government awarded the contract for the project in October 2017 and took three and a half years to negotiate the terms before signing the PPP contract. In announcing the signing of the contract, the Premier stated that the project was in line with the OBC completed in 2016. It is not clear if a final business case was prepared before signing the PPP contract, which is required by both the Government's governance framework for major capital projects and the PPP policies and procedures. The 2020 SPS states that the Government has planned for $383.4 million of capital investments for the three years to 2022; this includes the

[39] *Major Capital Projects Follow Up*, Office of the Auditor General, October 2017.
[40] *The Cayman Islands' Compendium of Statistics 2019*, Government of the Cayman Islands, Economics and Statistics Office, August 2020 (indicator 19.01a).

implementation of the integrated solid waste management system and remediation of the George Town landfill (both to be funded from the Environmental Protection Fund). However, the SPS does not specify how much funding has been included for these.

135. The next step of the project is for an environmental impact assessment to be completed during 2021, after which the remediation of the George Town landfill will be completed and construction of the new facilities started. It is expected that the project will take around three and a half years to complete and that the new facility will become operational in 2024. A separate contract for $20 million to cap the George Town landfill was awarded in October 2020.

THE COST OF BORROWING AS A PERCENTAGE OF CORE GOVERNMENT REVENUE HAS FLUCTUATED

136. The third principle of responsible financial management specified in the PMFA is that the cost of borrowing (sum of interest, other debt servicing expenses and principal repayments) in any financial year should not be more than ten per cent of core government revenue.

137. Exhibit 12 shows that the cost of borrowing varied annually over the last five years and that the Government has complied with the requirement in only two of the five years. The most significant deviation from the requirement occurred in 2019, when the cost of borrowing was 38 per cent of total core government revenue. However, this was as a result of the Government repaying the bullet bond in November 2019.

Exhibit 12 – Cost of borrowing as percentage of total core government revenue, 2014–15 to 2019

	2014–15	**2015–16**	**2016–17**	**2018**	**2019**
Finance charges ($KYD)	33,280,000	31,007,000	43,540,000	26,852,000	24,947,000
Repayments ($KYD)	71,908,000	36,480,000	74,615,000	43,544,000	300,876,000
Cost of borrowing ($KYD)	**105,188,000**	**67,487,000**	**118,155,000**	**70,396,000**	**325,823,000**
Total core government revenue ($KYD)	659,639,000	712,421,000	1,022,956,000	838,063,000	861,961,000
Cost of borrowing as a percentage of total revenue	**16**	**9**	**12**	**8**	**38**
SPS forecast of cost of borrowing as a percentage of total revenue	16.1	9.8	9.7	8.9	48.2

Source: OAG analysis of EPS financial statements (2018 and 2019 amounts unaudited) and SPSs

138. Exhibit 12 also shows that the actual cost of borrowing was reasonably close to that forecast in the SPSs. However, it was worse than forecast in 2016–17 and better in 2019, and the principle was not met in both years.

NET DEBT IS SIGNIFICANTLY LESS THAN 80 PER CENT OF CORE GOVERNMENT REVENUE

139. The fourth principle of responsible financial management set out in the PMFA is that net debt should be no more than 80 per cent of core government revenue. The PMFA defines net debt as:

- core government borrowing less core government liquid assets;
- borrowing that is serviced directly by SAGCs but is in the name of the Government; and
- the percentage of SAGC debt guaranteed by the Government.

140. Exhibit 13 shows that in each of the last five years the Government's net debt was less than 80 per cent of core government revenues and was better than forecast in the SPS. However, as reported earlier, the Government's net debt does not include the full liability for retirement costs.

Exhibit 13 – Net debt as percentage of core government revenue, 2014–15 to 2019

	2014–15	**2015–16**	**2016–17**	**2018**	**2019**
Net debt ($KYD)	316,591,000	182,136,000	15,690,000	(136,191,000)	(236,331,000)
Core government revenue ($KYD)	659,639,000	712,421,000	1,022,956,000	838,063,000	861,961,000
Net debt as a percentage of revenue	**48**	**26**	**2**	**-16**	**-27**
SPS forecast of net debt as a percentage of revenue	51.4	49.6	43.3	21.5	18.2

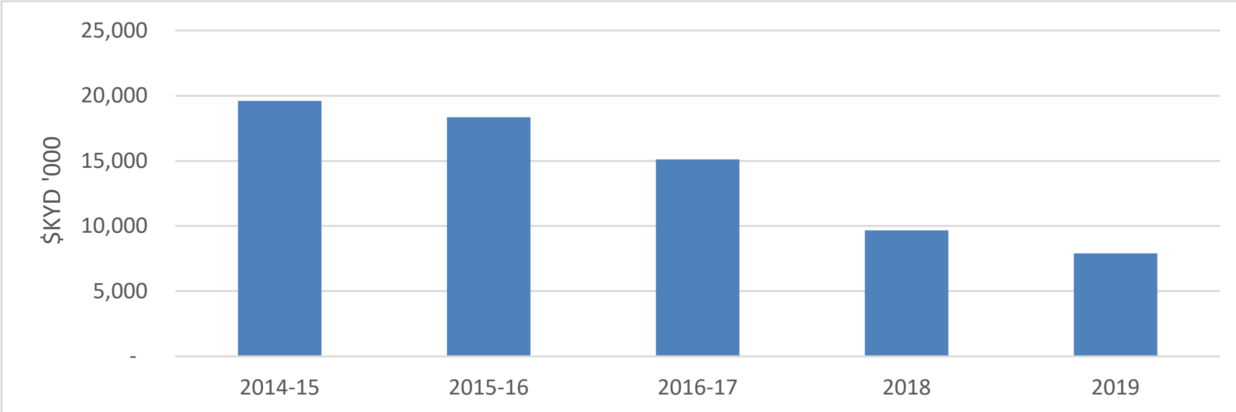
Source: OAG analysis of EPS financial statements (2018 and 2019 amounts unaudited) and SPSs

FINANCIAL RISKS FROM CONTINGENT LIABILITIES HAVE REDUCED

141. The final principle of financial management stated in the PMFA is that financial risks, including contingent liabilities facing the core government, should be managed prudently so as to minimise the likelihood of any such risk resulting in an expense or liability.

142. Exhibit 14 shows that core government's total contingent liabilities reduced significantly over the five year-period, decreasing from almost $12.9 million in 2014–15 to $6.7 million in 2019.

Exhibit 14 – Core government contingent liabilities 2014–15 to 2019



Source: OAG analysis of EPS financial statements (2018 and 2019 amounts unaudited)

143. In addition, some SAGCs also have contingent liabilities. Overall, contingent liabilities for the entire public sector reduced from almost $20 million in 2014–15 to $7.9 million in 2019. The largest SAGC contingent liability was for the Health Services Authority. However, this also reduced over the same period from $6.4 million to $860,000 as a malpractice suit was settled in 2018.

144. Although the value of contingent liabilities has reduced, we reported earlier that the completeness of provisions, including the potential cost associated with remediating for environmental liabilities, is one of the issues that has contributed to the adverse audit opinion in the EPS financial statements.

CONCLUSION

145. In December 2020 my Office published the first in a series of performance audit reports aimed at improving financial accountability and transparency. That report focused on budgeting. This second report in the trilogy focuses on financial management reporting, which is a fundamental part of the accountability process.

146. I am pleased to report that there have been significant improvements in financial management and reporting by public entities over the past decade. I have highlighted this progress in my General Reports that summarise the findings from the annual audits of the financial statements of entities each year.

147. Much has been done to improve financial management and the Ministry of Finance and Economic Development has played a pivotal role in this. The Ministry has improved its financial leadership and started a number of initiatives to strengthen financial management, including a developing a Public Finance Manual and frameworks for risk management, controls and performance reporting. However, many of these initiatives are still work-in-progress and they need to be completed before the new practices can be fully embedded in day-to-day operations across government. I encourage the Ministry to complete these activities as soon as possible.

148. My Office has repeatedly made a recommendation, aimed at strengthening governance, that an audit and risk committee for core government is established. It is pleasing to report that the Government established its Audit and Risk Committee in 2019 and it has met quarterly since September 2019. In my view this Committee is making a real difference.

149. The quality of financial reporting has also improved considerably over the last decade, which has led to a significant reduction in the number of qualified audit opinions. We have moved from a situation when many public entities received qualified audit opinions to this being a rare occurrence. We have only recently concluded the audits of public entities' 2020 financial statements. I am pleased to report that for the third year in a row we have not issued any qualified audit opinions for the audits that we have completed to date.

150. However, significant improvements are needed in the financial statements for the entire public sector (EPS). The quality of these financial statements has improved slightly over the years from a disclaimed to an adverse audit opinion in 2012–13. However, much needs to be done to improve the EPS financial statements to move to a qualified and ultimately unqualified audit opinion. I acknowledge that this is not easy and many Governments across the world have their EPS financial statements qualified for a number of years after they are introduced. That said, it is not impossible and I strongly encourage the Ministry of Finance and Economic Development to develop a roadmap

on how it plans to improve the EPS financial statements with a view to receiving a clean opinion sometime in the future.

151. The Government has committed to prudent financial management and set out six principles for responsible financial management for core government in *the Public Management and Finance Act*. The Government sets out its intended performance against each of the principles as part of its budget process but reporting of actual performance against these principles is not timely or accurate. My Office recalculated the actual performance against the six principles and I am pleased to report that the Government performed well against most of them. However, it is essential that the Government reports its actual performance against the principles in a clear, accurate and timely manner as they are the cornerstone of the approach to prudent financial management.

152. It is pleasing that financial management and reporting has improved. However, there is inevitably still more to be done and I have made 16 recommendations in this report that are aimed at further improving financial management and reporting across the public sector. Some of these recommendations are aimed at improving transparency and they will need buy-in from politicians to change the way the Parliament operates. I strongly encourage officials and elected members to seize the opportunity to do this as the Parliament establishes itself as a new, independent entity.

153. The assistance and cooperation we received from officials in the Cayman Islands Government, particularly the Ministry of Finance and Economic Development, and SAGCs in all phases of the audit is gratefully acknowledged. Without their help, the audit could not have been completed.

Sue Winspear, CPFA
Auditor General
George Town, Grand Cayman
Cayman Islands

13 May 2021

APPENDIX 1 – SUMMARY OF PREVIOUS OAG RECOMMENDATIONS ON FINANCIAL MANAGEMENT AND REPORTING

The following provides a summary of recommendations made by the Office of the Auditor General (OAG) to simplify and improve the budgeting process in our 2013 report *Restoring Financial Accountability: A Time for Change?*. As at March 2021, five of these 18 recommendations had been implemented and six partly implemented.

Recommendation	Original Government response	Implemented	Comment	Reference in this report (or General Report)
1. The Government should immediately start a far-reaching and comprehensive review of the *Public Management and Finance Law* (PMFL) and consider seriously what kind of financial management, performance management and accountability reporting framework it needs and the organisational structure requires to deliver it.	The Government agreed with this recommendation.	**Yes**	The Government set up a PMFL Review Committee in 2014. The committee reported in 2015 and made a number of recommendations to improve financial management and reporting, some of which have since been implemented.	Throughout the report
Simplify the financial and performance reporting framework				

2. Accountability could effectively be achieved through the provision of one auditable set of financial statements for the whole of core government that are compliant with International Public Sector Accounting Standards (IPSAS).	The Government did not agree with this recommendation.	N/A		
3. The Government should also consider preparing a management discussion and analysis, which provides a commentary on the results provided in the financial statements and other matters, including prospective fiscal information.	It is not clear if the Government accepted this recommendation.	**Partly**	The PMFL was amended in 2017 to reintroduce the requirement for annual reports to be published. Since 2016–17 core government entities and statutory authorities and government companies (SAGCs) have produced annual reports, which incorporate their financial statements. However, there is scope to improve these, particularly in relation to commentary on performance against approved outputs. There is no overarching annual report to accompany the entire public sector (EPS) financial statements.	Paras 54–60
4. The Government should implement a framework of formal delegated responsibilities and accountabilities, across Chief Officers, Heads of Department and Financial Officers, linked to providing assurances to the	It is not clear if the Government accepted this recommendation.	**Partly**	The Ministry of Finance and Economic Development (MFED) issued Parts I and II of the Public Finance Manual in 2018, which set out accounting principles and guidelines.	Paras 20–30

officials principally accountable to the Legislative Assembly (Deputy Governor and Financial Secretary) for the use of financial resources. These assurances could include, for example, the state of internal controls, compliance with laws and regulations, and compliance with accounting and financial reporting requirements.			MFED developed an internal control policy in 2017 and a set of frameworks aimed at strengthening governance and financial management in 2019, but these have not yet been fully implemented.	
5. Quarterly reports for core government should be reintroduced to promote transparency and accountability throughout the financial year.	The Government agreed with this recommendation.	**Yes**	The PMFL was amended in 2017 to reintroduce the requirement for quarterly reports for core government. Quarterly reports have been prepared and published since quarter 1 of 2018.	Paras 70–74
6. Government should consider designing and implementing a system of performance reporting based on measuring the achievement of high-level impacts and outcomes, as set out in the strategic plans, and not only on outputs.	The Government agreed with this recommendation.	**No**	The budgeting and financial reporting framework is still based on outputs. See the report *Improving Financial Accountability and Transparency: Budgeting* for more detailed information on findings and conclusions. The Government committed to reviewing and changing this for the 2024–25 budget cycle. The Government launched a performance management framework in July 2019. However, this has not yet been implemented.	Paras 25–26

7. Government should also ensure that there is effective and transparent reporting of spending against the appropriations authorised by the Legislative Assembly, along with cash and debt level requirements.	The Government agreed with this recommendation.	Partly	All public bodies and the entire public sector report financial performance against original and final budget in their financial statements and provide explanations for variances. However, core government entities' annual reports do not include a statement reporting all of the executive financial transactions that the entity has administered, as required by section 44 of the *Public Management and Finance Act* (PMFA). However, reporting of performance against the principles of responsible financial management specified in the PMFA is not done in a timely manner.	Paras 44–52 Para 98
8. The distinction between executive and entity transactions and account balances should be removed and other compensating checks and balances introduced.	The Government accepted this recommendation.	No	As reported in *Improving Financial Accountability and Transparency: Budgeting*, this has not yet happened. See that report for more detailed information on findings and conclusions.	
Restructure the Government's financial functions				
9. There is a need to explicitly assign administrative responsibility for ensuring the effective operation of the	The management response suggests that the PMFL already	N/A		

financial framework outlined in the PMFL.	covers this and MFED has clear administrative responsibility.			
10. There is a need for a strong central financial function responsible for ensuring the effective operation of the financial management and reporting framework. A stronger central financial function would have some of the following main responsibilities:	The management response suggests that the PMFL already covers this and MFED has clear administrative responsibility.	**Yes**	The PMFA has been amended to give the Chief Officer of MFED a stronger role. MFED provides good functional financial leadership, although there is scope to improve this further. Most of the elements have been implemented. We have therefore assessed this recommendation as implemented.	Paras 20–30
• Overseeing financial management and reporting (including cash management) across government.		*Yes*		
• Ensuring effective continuing professional development of finance professionals across core government and the wider public sector.		*Yes*	MFED coordinates annual technical updates for finance staff across government and the wider public sector.	Para 22
• Setting appropriate accounting policies and directives that would ensure compliance with IPSAS and ensuring that they are consistently applied across government.		*Partly*	MFED is in the process of developing a Public Finance Manual. Parts I and II were published in February 2018. Parts	Para 27

			III and IV were due to be issued by January 2019 but have been delayed.	
• Providing clear guidance on the implementation of accounting and financial reporting standards.		*Partly*	As above. However, we found that more could be done to provide functional leadership.	Paras 27–30
• Setting clear standards and expectations for the levels of service for financial management and reporting across the public service.		*Partly*	The PMFA sets out the requirements for financial reporting. The Financial Regulations provide guidance on some elements of financial management, but the Public Finance Manual has not been completed.	
• Taking ownership (or representation of associated financial interests) of the financial accounting system and approving any modifications and changes required to the system.		*Yes*		
• Providing advice and guidance on complex financial transactions.		*Partly*	Yes – but we found that more could be done to provide central leadership in this area.	Para 30
• Operating as a robust financial controller, within core government, reviewing the financial results across ministries and portfolios throughout the year, to ensure that they are in line with expectations, and challenging significant deviations.		*Partly*	MFED reviews information from all entities and SAGCs on a regular basis and uses this to prepare the quarterly reports. However, it is not clear to what extent it uses this information to operate as a financial controller.	Paras 22 and 70–74

11. The roles and responsibilities should be clearly split between the strategic planning/budget management function of government and the financial management, accounting and reporting functions.	The Government did not agree with this recommendation.	N/A		
12. The Government should consider centralising the processing of all routine financial transactions such as accounts payable.	It is not clear if the Government accepted this recommendation.	N/A		
Strengthen accountability				
13. The accountabilities and responsibilities of Chief Officers (including Managing Directors and Chief Executive Officers) and their senior finance officers for the use of public resources should be formally documented, requiring them to provide formal assurances.	The Government agreed with this recommendation.	Partly	Statements of Responsibility have been introduced, but these do not yet fully comply with the internal control policy introduced in 2017. An additional set of frameworks was developed in 2019, and a risk management tool was launched in March 2021 that will help implement this recommendation.	Paras 23–26
14. All Chief Officers' and senior financial officers' performance agreements should include details of what is expected of them in terms of establishing and maintaining the system of internal control, managing resources	The Government agreed with this recommendation.	N/A	We are unable to confirm whether or not Chief Officers and Chief Financial Officers' performance agreements specify these requirements.	

and ensuring that they meet their responsibilities.				
15. Senior financial officers should have at least a functional/professional reporting relationship to the chief officer of the central financial function as well as an accountability relationship with the relevant chief officer.	The Government agreed with this recommendation.	**Partly**	The PMFA states that each entity should appoint a Chief Financial Officer (CFO) as the key adviser to the Minister and Chief Officer, and it sets out the role of the Chief Officer of Finance. MFED hosts CFO meetings and provides functional leadership to CFOs. However, there is no official reporting relationship between CFOs and the Chief Officer of MFED.	Para 21
16. The status, position and resourcing of the Internal Audit Unit needs to be fundamentally addressed to enable it to provide appropriate levels of assurance and add value. This would include: • Undertaking a fundamental review of the scope of its client base and resourcing to enable it to comply with the requirements of Internal Audit Standards. • Reporting directly to the Office of the Deputy Governor. • Establishing an audit committee for core government in which reports are discussed and officials are held accountable for taking action on recommendations.	The Government agreed with this recommendation.	**Yes**	The internal audit function was restructured in 2017 and now sits within the Portfolio of the Civil Service and reports to the Deputy Governor. The PMFL was amended to require a Director of Internal Audit.	Paras 37–39
		Yes	The Audit and Risk Assurance Committee for core government was established in January 2019 and has met quarterly since September 2019.	Paras 33–36

17. The establishment of an audit committee at the core government level would also provide a sound way for the Deputy Governor to obtain independent advice on strategic performance, assurance, and compliance matters.	It is not clear if the Government accepted this recommendation.	**Yes**	As above.	
Improve transparency of financial information and transactions				
18. Government should implement transparency measures, through legislation or administrative policy, across the public service, particularly for board member and senior staff remuneration and sensitive areas of expenditure. Suggested measures could include:	It is not clear if the Government accepted this recommendation.	**Partly**		Paras 75–90
• Publication of all accountability documents, including strategic and operational plans, financial statements, annual reports, and both internal and external audit reports.		*No*	Only a few entities have up-to-date strategic and operational (or annual) plans published on their websites. Entities are not routinely publishing these on their own websites after they have been tabled in Parliament, although there are some exceptions.	Paras 77–79

			The OAG publishes all International Standard on Auditing (ISA) 260 reports on the findings from each annual audit, General Reports, public interest reports and performance audit reports on its website.	
• Regular and timely publication of the travel and related expenses of Ministers, board members and senior managers on entity websites.		*Partly*	The Government introduced a travel policy in July 2013 (revised in July 2016), which is mandatory across the civil service and requires proactive disclosure of senior managers' travel expenses in a standard format. We found that, with the exception of a few entities, most are not publishing this information.	Paras 80–83
• Regular and timely publication of the details of the hospitality/gifts given and received by Ministers, board members and senior managers on entity websites.		*Partly*	Government introduced a hospitality policy in June 2017 that requires that a record of hospitality received and offered is retained and disclosed in a standard format. We found that, with the exception of a few entities, most are not publishing this information.	Paras 80–83
• Regular and timely publication of expenditures and contracts for amounts over predetermined thresholds.		*No*	Some information on contracts awarded is published on the Central Procurement Office's website. However, this does not capture all	Paras 84–86

			information and it is not being proactively disclosed on websites.	
• Publication of details of the remuneration of each Minister, board member and senior official.		*No*	Only the independent OAG and Office of the Ombudsman proactively disclose this information.	Para 76
• Publication on entity websites, or its availability for inspection, of a register of interests of board members and senior managers.		*Yes*	Notices of interests are completed each year for key management personnel (including board members) and made available for audit and for inspection if requested. The *Standards in Public Life Law* was brought into force in March 2020, and it requires all those in public life to submit notices of interest to the Commission for Standards in Public Life annually.	Paras 87–89
• Inclusion within the annual financial statements of any frauds or losses incurred by an entity.		*Yes*	This information is reported in financial statements where applicable and reviewed as part of the annual financial audit.	

APPENDIX 2 – ABOUT THE AUDIT

OBJECTIVE

1. This report is one in a series of three reports aimed at improving financial accountability and transparency. The overarching objective of the audit (and series) was to assess how effective the Cayman Islands Government is at budgeting and at financial management and reporting to enhance transparency, accountability and long-term financial sustainability. It sought to answer the following audit questions:
    - Does the Government have an effective and transparent budgeting process?
    - How effective is the Government at financial management and reporting?
    - How well does the Government monitor, measure and report on financial performance and long-term financial sustainability?
2. This report covers the effectiveness of the Government's financial management and reporting, that is, the second audit question.

CRITERIA

3. Audit criteria set out the expectations, or standards, against which an audit can assess observed performance in order to develop findings, make recommendations as appropriate and draw conclusions on audit objectives. We set the following criteria for this part of the audit:
    1) An effective financial management framework is in place.
    2) Strong financial leadership, with clear accountabilities and responsibilities, is in place.
    3) A strong, effective internal audit function is in place.
    4) An effective audit committee is in place.
    5) Financial reporting is transparent, timely and high quality.
    6) Quarterly reports, based on timely, accurate information, are produced and used to inform decision making.
    7) A robust performance management framework is in place.
    8) Effective monitoring and reporting of financial performance is in place.

AUDIT SCOPE AND APPROACH

4. The audit assessed progress in improving financial management and reporting across government. It focused on MFED and its coordination role covering the entire public sector, which it depends upon to collect data on accountability and transparency.

5. Our audit covered the five-year period from 2014–15 to 2019. Note that the financial year end changed in 2016–17 from 30 June to 31 December. Financial year 2016–17 was a transitional year covering 18 months.

6. We assessed the Government's effectiveness by reviewing its implementation of previous audit recommendations and steps taken to improve financial management and the transparency of financial performance reporting. This included assessing the effectiveness of the Government's monitoring, measuring and reporting of its current financial condition and identifying any concerns over the capacity and capability of finance teams in government.

7. The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAI). The approach to the audit included:
    - conducting interviews with key stakeholders, including MFED staff;
    - reviewing documents, including legislation, guidance, budget documents, financial reports and statements, financial metrics, staffing information and performance expectations, for significant government programmes;
    - analysing financial and performance information;
    - researching international good practice on financial performance reporting;
    - providing a draft report to relevant officials to review it for factual accuracy;
    - presenting a final report of the audit to the Parliament.

AUDIT STAFF

8. The audit was carried out under the direction of Angela Cullen, Deputy Auditor General (Performance Audit) and assisted by Julius Aurelio (Audit Manager), Gabriel Ncube (Audit Project Leader) and a contracted professional consultant.

APPENDIX 3 – RECOMMENDATIONS

Recommendation	Management response	Responsibility	Date of planned implementation
1. The Government should ensure that the internal control policy is fully implemented as soon as possible with a view to including full Statements of Responsibility for Internal Control in the 2022 financial statements.	Management agrees with this recommendation.	Accountant General	30 December 2022
2. The Government should ensure that the new governance and financial management frameworks, including risk management and performance management, are implemented as soon as possible.	Management agrees with this recommendation.	Accountant General	1 January 2024
3. The Government should estimate the cost of fully implementing section 47 of the *Public Authorities Act* and ensure that sufficient funding is provided to statutory authorities and government companies in their future budgets.	Management agrees with this recommendation and will continue the practice of providing SAGCs and Ministries with an Implementation Calculator which estimates the cost of adhering to the approved Salary Scale. The Ministries and SAGCs will have this data in time for the upcoming 2022/23 Budgetary process.	Chief Officer, PoCS CEOs of SAGCs Chief Officers	Ongoing

Recommendation	Management response	Responsibility	Date of planned implementation
4. The Ministry of Finance and Economic Development should develop and implement an action plan to improve the quality of the entire public sector consolidated financial statements. The action plan should set out a roadmap for moving to a qualified audit opinion in the first instance and an unqualified audit opinion in the longer term.	Management agrees with this recommendation and has plans to do so.	Financial Secretary and Accountant General	Plan to be developed by 30 June 2022
5. The Government should ensure that all annual reports provide an assessment of performance against the outputs and outcomes that are agreed in budget documents, including an explanation for any variances.	Management agrees with this recommendation. This will be addressed by the Reporting and Budget Working Group in developing the new framework.	Financial Secretary Accountant General	28 February 2025
6. The Government should require each entity to submit evidence for the actual delivery of outputs, compared with targets agreed in budget documents, to support the disbursement of funds.	As we operate in a decentralised system, this is done at the Ministry level. Each Chief Financial Officer submits evidence along with their monthly billing to the Chief Officer (CO). CO then submits to Minister affirming that outputs have been delivered.	Not Applicable – Already in place.	Not Applicable – Already in place.

Recommendation	Management response	Responsibility	Date of planned implementation
7. The Government should ensure that annual reports and financial statements are tabled in the Parliament and made publicly available as soon as possible after the audit has been completed to improve transparency and accountability.	Management agrees with this recommendation and included this as an area of improvement in the 5-Year Strategic Plan.	Financial Secretary Senior Assistant Financial Secretary Accountant General	May 2022
8. The Parliament should update its Standing Orders to allow reports, including annual reports and financial statements, to be tabled throughout the year and not only when the Parliament has a meeting.	This recommendation falls under the remit of the independent Parliament and not the Executive.		
9. The Government should use quarterly reports to better inform decision making, including supplementary appropriations and revisions to future budgets.	Management agrees with this recommendation.	Financial Secretary Accountant General Deputy Accountant General	March 2023
10. The Government should ensure that all entities publish their annual reports, including financial statements, on their websites as soon as possible after they have been tabled in the Parliament.	Management agrees with this recommendation.	Financial Secretary Senior Assistant Financial Secretary Accountant General	May 2022

Recommendation	Management response	Responsibility	Date of planned implementation
11. The Government should ensure that all entities regularly proactively disclose information on travel and related expenses, and on gifts and hospitality, including 'nil returns', as set out in its policies.	Management agrees with this recommendation.	Deputy Governor Chief Officers	August 2021 (delayed implementation given the high volumes of system changes which occur following an election).
12. The Government should ensure that information on the award of contracts is published on relevant websites within the timescales specified in the Procurement Regulations.	Management agrees with this recommendation.	Financial Secretary Director of Procurement	31 January 2022
13. The Government should amend the *Standards in Public Life Act* to require notice of interest forms to cover the entire financial year and should ensure that relevant information from these can be retained and used by public bodies to manage any potential conflicts of interest.	The proposal to amend the reporting period to align it with the financial year will need to be considered by the recently appointed Commission for the Standards in Public Life.	Commissions Secretariat	To be determined once discussed with newly appointed Commission.
14. The Government should make anti-fraud training a mandatory annual requirement for all civil servants and all staff in statutory authorities and government companies.	Management agrees with this recommendation.	Deputy Governor Financial Secretary Accountant General	January 2022

Recommendation	Management response	Responsibility	Date of planned implementation
15. To clearly demonstrate compliance with the Public Management and Finance Act, including requirements of the Framework for Fiscal Responsibility, the Government should: a) Report interim performance against the principles of financial management, using unaudited financial information, when it announces the unaudited results for the financial year. b) Report performance against the principles in its annual report for the entire public sector, ensuring that figures have been updated to reflect the audited financial statements for the entire public sector. c) Provide explanations for any non-compliance.	Performance against the principles of financial management are normally included in the EPS Annual Report. Management will endeavour to include interim performance using unaudited annual results at the end of the financial year.	Accountant General	January 2022
16. The Government should report the full value of the post-retirement obligations, including pension and healthcare, in the financial statements of the entire public sector.	Management agrees with this recommendation.	Financial Secretary Accountant General	July 2022

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