


Governance in the Cayman Islands Government How Core Government Manages Resources



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EXECUTIVE SUMMARY

Good governance in the public sector encourages the efficient and effective use of resources, strengthens accountability for the stewardship of those resources, improves management and service delivery, and thereby contributes to improving peoples' lives.

The foundation for the governance framework in the Cayman Islands Government has been established by the Public Management and Finance Law as recently amended for the Framework for Fiscal Responsibility, the Public Service Management Law and the Constitution. The framework has been designed to achieve a very high standard of accountability and transparency for a country of the Cayman Islands size.

Our audit found that the governance framework is solid but there are aspects of the legislation that are difficult for government to implement, as it is complex and demands too many administrative resources for the benefits being received. As a result we are concerned that not all aspects of the governance framework are being implemented, or complied with, which weakens overall governance.

For example I found that there are significant weaknesses in the implementation of the current framework that preclude the Government from being accountable for the results it obtains and how it tells the public about its performance. In some cases, such as the management of executive transactions, I found that the fundamental controls that ensure the lawful expenditure of public funds and expected controls outlined in the legislation were not sufficiently robust to prevent any potential abuse or misuse of public funds. Other matters identified in the report include:

- Whilst the framework provides clarity about the functions and roles of various players there are areas where ambiguity exists leading to potential exposure for misuse and abuse of public funds. We also observed instances where the roles identified in the governance framework were not being fulfilled.
- Changes made with the introduction of the PMFL to redefine performance to focus on results, develop stronger strategic processes linked to the budget, clarify roles, and establish effective accountability mechanisms have largely not achieved the desired impact.
- The governance framework does not have a focus on achieving clear and measureable results for citizens and service users with the exception of the PMFL's principles of responsible financial management. High level statements of intended results are part of Governor in Cabinet's Strategic Policy Statement (SPS) but each succeeding planning phase after the SPS is increasingly focused on activities rather than results.

- The Constitution and PSML establish and strongly endorse values and ethics as a guide to public service behavior and decision making, and this is promoted by the Deputy Governor and the Portfolio of the Civil Service. However, our audit indicated that values and ethics were not embedded across Government and have been applied selectively.
- The governance framework calls for risk management to be considered in the management of resources and decision making. However, rather than assessing the risks that could impact on the achievement of results, risk management has been focused on operations.
- The governance framework has not been supported by credible and timely reporting of non-financial and financial performance results.

The report contains twelve recommendations for how governance in core government can be improved. It is important to recognise that the Government is now taking action to address a number of the issues we discuss in this report. However, it will continue to take significant leadership by the Deputy Governor together with the support of the political government to ensure that the Cayman Islands Government has a governance framework that meets its needs and is fit for purpose.

I look forward to working with the Government as they take up this significant challenge.

BACKGROUND

WHAT IS GOVERNANCE AND WHY IS IT IMPORTANT?

1. Governance refers to how an organization is structured and the processes and procedures it follows to fulfill its mission or purpose and achieve desired outcomes. Effective governance in the public sector can encourage the efficient use of resources, strengthen accountability for the stewardship of those resources, improve management and service delivery, and thereby contribute to improving peoples’ lives. In 2012-2013, entire public sector spending in the Cayman Islands is forecast to exceed \$ 752 million. How this money is spent and the quality of services that it provides is important to Caymanians, residents and the users of the services.

The Importance of Good Governance

The United Nations expresses the importance of good governance as a global issue that is important to a country’s development. Specifically, the United Nations reports that:

“Good governance promotes equity, participation, pluralism, transparency, accountability and the rule of law, in a manner that is effective, efficient and enduring.”

“well-governed countries are less likely to be violent and less likely to be poor. When the alienated are allowed to speak and their human rights are protected, they are less likely to turn to violence as a solution. When the poor are given a voice, their governments are more likely to invest in national policies that reduce poverty. In doing so, good governance provides the setting for equitable distribution of benefits from growth.”

(Source: <http://www.un.org/en/globalissues/governance/>)

The importance of governance to the achievement of public sector outcomes is underlined by the United Kingdom’s Independent Commission on Good Governance in Public Services in its 2004 report entitled The Good Governance Standard for Public Services:

“Good governance leads to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes.”

2. There is not a one size fits all formula for good governance. Effective governance frameworks must respect cultural, historic and logistical realities within each jurisdiction. That is no truer than in the Cayman Islands. The Cayman Islands governance framework has evolved within the reality of its being a United Kingdom overseas territory which, over the years, has adopted increasingly independent governance arrangements.

3. Governing public service organisations is a complex undertaking, even in small organizations. Governance frameworks provide the roadmap for leadership, direction and control of public organisations. Governors (those that are key role players in a governance framework) need to address the purpose and objectives of public organisations and ensure that they deliver positive outcomes for the people who use the services, as well as providing good value for citizens who fund them.
4. Governance in the public sector shares many similarities with governance in the private sector but there are also at least four key differences. First, public money is provided, by taxpayers or service fee payers based on the authority of *decisions* taken by elected representatives. Second, the public sector can only spend funds for *purposes* that have been authorized by the legislative body. Third, the public sector is required to conduct its business in accordance with recognized standards of *probity*. And fourth, the public sector must be able to demonstrate that it has spent public funds with a due regard for *value for money*. Because of these four characteristics of governance, the public sector is subject to stringent standards of accountability. This accountability acts as a substitute for the private sector competitive pressures that drive down costs, ensure resources are utilized efficiently and ultimately, that lead to a profitable bottom line.

Probity: *The quality of having strong moral principles, honesty and decency.*

5. A focus by government leaders on good governance can help the public sector to deliver on its performance expectations or outcomes, while at the same time meeting standards of accountability. Governance should be seen as fundamental to delivering better outcomes as well as enabling compliance.

INTRODUCTION

6. The Cayman Islands governance framework is relatively “young” with the new Constitution established in 2009, a Public Management and Finance Law passed in 2004 and the Public Service Management Law that came into effect in 2005. Even though the Cayman Islands are relatively small, the governance framework is complex, partly a factor of it being a United Kingdom Overseas Territory that is transitioning over time with a greater emphasis on being able to operate in a more independent manner. Therefore, in planning our audit work on governance we started with reporting on how the governance framework is designed to work. In conjunction with this report we have issued a report entitled “*Describing the Framework*” which describes the overall governance approach but which did not examine how the governance approach was actually implemented.

7. In that report, we describe how the Cayman Islands' governance framework is designed to work. The report used the six principles of The Good Governance Standard for Public Services as a guide for describing how governance is designed to work in the Cayman Islands. Although the Good Governance Standard was prepared within a United Kingdom context, its six principles of good governance have much in common with similar work on governance from other jurisdictions. The six principles of good governance are
 - a) **Focusing on the organization's purpose and on outcomes for citizens and service users.** The Standard stresses that a focus on purpose and outcomes is an overriding principle that should direct all governance activity.
 - b) **Performing effectively in clearly defined functions and roles.** All players within the governance framework should be clear about the functions of governance and their own roles and responsibilities. Understanding your own role, and how it relates to that of others, increases the chance of performing the role well.
 - c) **Promoting values for the whole organization and demonstrating the values of good governance through behavior.** Promoting a culture of adherence to recognized values and ethics by all involved in governance is important. The United Kingdom's Committee on Standards in Public Life seven principles for the conduct of people in public life: selflessness, integrity, objectivity, accountability, openness, honesty and leadership are an example of behavior that could be promoted (see Appendix 2 for further details).
 - d) **Taking informed, transparent decisions and managing risk.** Governors needed to be supported in their decision making by appropriate systems, including effective risk management.
 - e) **Developing the capacity and capability of the governing body to be effective.** Governing bodies must consider the skills that are required to address issues that they confront.
 - f) **Engaging stakeholders and making accountability real.** Accountability in the public sector is complex and can involve multiple relationships, such as citizens, legislature, ministers and regulators.
8. The Commission concluded that the Standards could apply to many types of organizations including central government and public sector organizations. It recognized that some governing bodies are elected and others are appointed. So the Standard has wide applicability which could include the Cayman Islands' governance framework.
9. To fully understand the implications of this report, we recommend that one has read or have available the report, "*Describing the Framework*". In Exhibit 1 below, we have summarized the key components of the Cayman Islands' core government governance framework, structured in accordance with the Good Governance Standards for Public Services.

Exhibit 1 – The key components of the Cayman Islands’ core government governance framework, structured in accordance with the Good Governance Standards for Public Services

Good Governance Standard	Key governance feature
<p>Focusing on the organization’s purpose and on outcomes for citizens and service users.</p>	<p>Through its decisions, Governor in Cabinet (GIC) is the principal policy setting body within the governance framework.</p> <p>GIC produce a three year strategic plan or Strategic Policy Statement (SPS) focusing on broad and specific outcome objectives.</p> <p>Working with their ministries and portfolios, Ministers and Official Members identify what they can do to influence the specific outcome objectives.</p> <p>Detailed planning and budgeting phase where ministries and portfolios are required to identify what they can do to achieve the outcomes. Annual budget statement prepared that reflect the outputs agreed to be provided on behalf of the GIC.</p> <p>Approval by GIC of the draft annual plan and estimates which is the basis for Legislative Assembly review and authorization of Appropriation Law. The annual plan and estimates is supposed to explain how the specific outcomes and specified outputs are in accordance with the Legislative Assembly’s approval of the Strategic Policy Statement.</p> <p>Once these decisions are made, a finalized annual budget statement is agreed to by the GIC and the Chief Officer and the responsibility for implementation transfers to the Chief Officer.</p> <p>Public service performance oversight by Deputy Governor.</p> <p>Results are monitored by the ministry of finance and the GIC .</p>
<p>Performing effectively in clearly defined functions and roles</p>	<p>The Constitution, Public Management and Finance Law (PMFL) and Public Service Management Law (PSML) set out the roles and responsibilities of a number of key positions within the governance framework.</p> <p>GIC requires the approval of the Legislative Assembly to enact legislation, to approve new coercive revenue or change existing revenue rates, to receive annual appropriations to implement the government’s annual plan and estimates, to receive supplementary appropriations when required and to authorize any guarantee which the government wishes to give.</p>
<p>Promoting values for the whole organization and demonstrating the values of good governance through behavior</p>	<p>The Constitution, the Anti-Corruption Law, and the PSML have provisions which specifically address the culture of values and ethics, including a Code of Conduct.</p> <p>The Constitution also called for the creation of the Commission for Standards in Public Life designed to foster a government and civil service that operates with high values and in an ethical manner.</p> <p>The Constitution makes reference to all members of the Legislative Assembly making a declaration of interests, assets, income and liabilities upon assuming the functions of his or her office which are to be recorded in a Register of Interests.</p>

Good Governance Standard	Key governance feature
<p>Taking informed, transparent decisions and managing risk</p>	<p>Under the PMFL, chief officers have been given responsibility to make decisions with respect to the operation of their ministry or portfolio GIC to receive a recommendation, from the Public Sector Investment Committee (PSIC), through the Minister of Finance, on the viability of large capital projects.</p> <p>GIC decision making process, established as policy, is supported by the requirement to provide specific information in advance of decision-making consideration by the GIC. However, legislation does not set out a specific role for GIC in most decision-making.</p> <p>Under the PMFL, risks are to be addressed at various stages of planning and reporting.</p>
<p>Developing the capacity and capability of the governing body to be effective</p>	<p>There is nothing specific mentioned in the Constitution, PMFL and PSML with respect to capacity development for elected or appointed officials. However, such capacity building can be completed without specific legislative direction.</p>
<p>Engaging stakeholders and making accountability real</p>	<p>Two significant accountability relationships for government, one related to the spending of public money, and the other related to financial and non-financial performance reporting against approved budgets and appropriations.</p> <p>Under the PMFL, appropriations authorizing all spending are approved at the beginning of the financial year or during the year by the Legislative Assembly. Changes during the year require approval of the Finance Committee of the Legislative Assembly before expenses are incurred, asset acquired or loan made. The PMFL provides for exceptional circumstances where GIC can proceed without prior approval.</p> <p>The accountability framework for financial and non-financial performance reporting is clearly established by requiring government to explain to the Legislative Assembly, at the beginning of the financial year, what it plans to accomplish and then requiring an annual report at the end of the financial year to explain what had happened.</p> <p>Public Accounts Committee and three independent officers – the Auditor General, the Information Commissioner and the Complaints Commissioner - who have specified responsibilities to assist the Legislative Assembly hold government accountable.</p> <p>There is nothing in the Constitution, PMFL or PSML that sets out a framework for engaging stakeholders, either with the electorate who vote or the users who pay for specific services. However, stakeholder engagement can be conducted without legislative direction.</p>

ABOUT THE AUDIT

10. The audit objective is to determine whether the core government governance framework is being applied in practice and whether it meets good governance principles for public organizations, as appropriate for the Cayman Islands.
11. Core government is defined in the Public Management and Finance Law as the Legislative Assembly, the Governor in Cabinet, ministries and portfolios, the Office of the Complaints Commissioner, the Office of the Information Commissioner, the Office of the Auditor General, and includes the equity investment in statutory authorities and government companies. Of the \$752 million of planned spending in the entire public sector (which includes the statutory authorities and government companies that are excluded from this audit) in 2012-2013, \$459 million is planned to be spent through core government. Therefore, it represents the largest component of government.

Exhibit 2 –Spending by core government

Financial Year Ending	Planned Spending \$m's	Actual Spending (unaudited) \$m's
June 30,2013	\$459	-
June 30,2012	439	453
June 30,2011	405	409

Source: Annual Plan and Estimates

12. Statutory authorities and government companies, considered within the broader definition of the “entire public sector”, are the remaining significant organizations within the Cayman Islands overall governance framework. There is some overlap between governance requirements for core government and for statutory authorities and government companies, especially as it relates to the planning and budgetary processes. We have covered those overlapping areas within the core government audit by focusing on how core government transactions are dealt with. The accountability relationship between core government, and the statutory authorities and government companies is the subject of a concurrent audit and is, therefore, excluded from this audit report.
13. The audit includes all areas of the governance framework that incorporate core government except for the roles of the Governor, legislature, judiciary and police. The role of the Governor is the responsibility of the United Kingdom government to consider as part of its relationship with the people of the Cayman Islands and is, therefore, outside of the scope of this audit. Where this audit

focuses on core government, it does not examine the governance of individual statutory authorities or government companies.

14. The Good Governance Standard for Public Services is the source for the audit criteria used in this audit. However, considerable judgement needs to be applied to determine what “appropriate for the Cayman Islands” means when concluding about deviations from the Good Governance Standard. Governance structures must be appropriate to the cultural and contextual background that it is designed to serve. In that regard, the audit employed an advisory committee to provide input to ensure the criteria best described the expectations for this audit.
15. More information “About the audit” including the scope and criteria can be found in Appendix 1.

AUDIT FINDINGS AND RECOMMENDATIONS

THE FRAMEWORK FOR FISCAL RESPONSIBILITY REINFORCES THE GOVERNANCE FRAMEWORK

16. In November 2011, the Cayman Islands Government signed an agreement with the United Kingdom Government on a revised Framework for Fiscal Responsibility (FFR). In the FFR, the parties affirmed that the Cayman Islands Government is committed to the following principles:
 - a) Effective **medium-term planning**, to ensure that the full impact of fiscal decisions is understood;
 - b) Putting **value for money** considerations at the heart of the decision making process;
 - c) Effective **management of risk**; and
 - d) Delivering improved **accountability** in all public sector operations.

17. The FFR recognizes that aspects of the governance framework need to be addressed to improve overall governance in the Cayman Islands. Our recent audit reports and this audit of the core government governance framework have reached similar conclusions about the need for improvements to the governance framework. In November 2012, the Legislative Assembly authorized an amendment to the Public Management and Finance Law that incorporated the FFR into that legislation.

18. Some issues discussed in the FFR are already covered in the Public Management and Finance Law (PMFL) and Regulations. For example, the planning, development and execution of projects is covered extensively in both the Law and its Regulations. The FFR provides some clarity about the intent of the items included in the governance framework and it provides for accountability between the governments of the Cayman Islands and the United Kingdom for the implementation of the FFR.

GOVERNANCE CURRENTLY NOT FULLY FOCUSED ON RESULTS

19. The function of governance is to ensure that an organization understands and fulfills its overall purpose, achieves its intended outcomes for citizens and service users, and operates in an effective, efficient and ethical manner. There are some general purposes that are fundamental to all public governance, including providing good quality and effective services, and achieving value for money.
20. The concept of 'public value' can be helpful when thinking about the unique purpose of public services and therefore of their governance. Public value refers to the things that public services produce, either directly or indirectly, using public money. Public value includes: outcomes (such as improved health and improved safety); outputs or services (such as high school education and policing); and trust in public governance.
21. The Cayman Islands' governance framework is set up to focus on results through complex, integrated planning, budgeting and reporting processes that are embedded in the PMFL. These processes provide for strategic direction about intended results from Government, planning for the procurement of outputs and the delivery of services and activities that will achieve the strategic direction, and an accounting for the results actually achieved at the end of the year. Exhibit 3 summarizes the key aspects of the PMFL's integrated planning, budgeting and reporting processes

Exhibit 3 - Key aspects of the PMFL’s integrated planning, budgeting and reporting processes

Expected Results and Resources Used	Outcomes	Outputs	Services and Activities	Inputs
Definition	<p>The results the government seeks to achieve from its activities, and the activities of those it influences, in order to meet its objectives.</p> <p>Immediate outcomes might include an increase in the airports capacity to handle passengers or increased access to health care.</p> <p>Ultimate outcomes might include increased tourism activity or improved health of citizens.</p>	<p>The immediate result of the activities of government or the products or services that a program ultimately makes available to a target group.</p> <p>Outputs might include proportion of the population attending higher education, number treated by a health care facility, and the number of inspections completed.</p>	<p>The details of what is done to produce outputs or steps taken to carry out a program.</p> <p>Activities might include specific health services, preparation of analyses and research, preparation of reports, and consultation with stakeholders.</p>	<p>Staff or physical resources required to deliver an output. Financial resources are needed to acquire these resources.</p>
Responsibility under the Public Management and Finance Law	Governor in Cabinet	Governor in Cabinet	Chief Officers, Ministries and Portfolios	Chief Officers, Ministries and Portfolios
Accountability Relationship	Legislative Assembly	Legislative Assembly	Deputy Governor	Deputy Governor
Key Accountability Documents	<p>Strategic Policy Statement</p> <p>Annual Plan and Estimates</p> <p>Appropriations</p> <p>Government annual report</p>	<p>Annual Budget Statement</p> <p>Ministry or Portfolio annual report</p> <p>Performance and purchase agreements</p>	Ministry or Portfolio annual report	Ministry or Portfolio annual report

22. The following are the key results that are defined in the PMFL and that are important to the functioning of the governance framework.
- Outcomes - The Governor in Cabinet (GIC) establishes annually what it would like to accomplish over the next three years in the Strategic Policy Statement (SPS). The results expectations are to be stated both in terms of very broad high-level and specific outcomes. The PMFL defines outcomes as “the impacts on, or the consequences for, the community of the outputs or activities of the entire public sector, the core government, an entity or other person”.
In addition, the SPS provides economic forecasts and financial targets which represent financial outcomes. This information is important for the annual planning processes so that ministries and portfolios can follow Government’s strategic direction. All the relevant information is to be tabled in the Legislative Assembly in the SPS and in this way it is to be transparent.
 - Outputs – Ministers work with ministries, and the Deputy Governor and Attorney General with portfolios to determine what outputs, transfer payments, equity investments, changes in fees for administrative services, and legislative measures are required to influence the specific outcomes identified in the SPS. This information makes up a draft Annual Budget Statement that is reviewed and either agreed to or amended by the GIC. The finalized Annual Budget Statement represents the outputs to be acquired and funding to be provided by the GIC. For the ministries and portfolios, the approvals represent the revenues that they need to purchase inputs to carry out the activities that deliver to the GIC the agreed upon outputs.
 - Annual appropriations - The Legislative Assembly approves appropriations that authorize government spending based on the government’s main budget document, the Annual Plan and Estimates. The Annual Plan and Estimates summarises the planned actions and financial performance at an overall government level. The Annual Plan and Estimates is supposed to explain how the identified specific outcomes, planned outputs and financial targets are in accordance with the Legislative Assembly’s approval of the SPS.
23. Principles of responsible financial management – PMFL Section 14 establish expectations that the GIC will manage the financial performance and position of core government in accordance with the principles of responsible financial management. This is the only situation where specific results expectations are embedded in the legislation that makes up the governance framework. The governance framework calls for all other results expectations to be set annually through the annual planning and budgeting processes set out in the PMFL. See Exhibit 4 which sets out the PMFL’s principles of responsible financial management.

Exhibit 4 – A description of the PMFL’s principles of responsible financial management and how they are implemented

The following summarizes the financial results expectations that are embedded in the PMFL (Section 14(3)) as the principles of responsible financial management:

- a) total core government revenue less total core government expenses (measured using generally accepted accounting practice) should be positive;
- b) total core government assets less total core government liabilities (measured using generally accepted accounting practice) should be positive;
- c) borrowing should not exceed an amount for which the sum of interest, other debt servicing expenses and principal repayments for a financial year are more than ten per cent of core government revenue (calculated using generally accepted accounting practice) for that financial year, where, for the purposes of this principle, borrowing is defined as all borrowing that is in the name of the Government regardless of whether it is serviced directly by the core government, a statutory authority or government company;
- d) net debt should be no more than eighty per cent of core government revenue;
- e) cash reserves should be maintained at a level no less than the estimated executive expenses (measured using generally accepted accounting practice) for the following ninety days; and
- f) the financial risks, including contingent liabilities, facing core government should be managed prudently.

Cabinet decisions may depart from the principles of responsible financial management for a limited period if the Cabinet specifies in a paper laid before the Legislative Assembly (for its information) the reasons for the departure, the approach that Cabinet intends to take in order to return to those principles, and the period of time that Cabinet expects to take to return to those principles.

In recent years, the Government has not met all of these financial management result expectations. The Government has set out a plan, agreed with the United Kingdom Foreign and Commonwealth Office, for returning to a financial position that can meet these specific financial results expectations that are embedded in the PMFL.

The core government governance framework is strengthened with the principles of responsible financial management included in the PMFL as it provides a clear indication of the financial results that are expected.

24. Therefore, we would expect to find that the core government governance framework is focused on achieving clear results for citizens and service users through implementation of the PMFL’s strategic planning, and annual planning and budgeting processes.

25. Our audit of the core government governance framework shows that it is structured in a manner that should ensure that there is a focus on clear results for citizens and service users. However, we found that the governance framework is not being implemented as designed in the PMFL. We found that the Strategic Policy Statement has a results focus when it comes to its high-level intentions (broad outcomes) but these high-level intentions are not translated into more detailed results expectations (specific outcomes) that clarify the Government's intentions. Rather the SPS's specific outcomes focus mostly on planned initiatives or activities and they are generally developed by Minister's and their ministries or portfolios and then proposed to the Government. In this way, the specific outcomes are less the Government's strategic direction and more the plans of the ministries and portfolios. The outputs that we examined in Annual Budget Statements are stated more as activities rather than as the immediate result of the activities of government or the products or services that a program ultimately makes available to the public. In the end, the key accountability documents taken together do not tell a persuasive story about how Government's programs and spending will lead to the high-level results expectations established by Government.
26. The amendments to the PMFL in 2004 brought with it a planning and budgeting approach that was designed to be results focused. This has only partially been achieved. The systems and practices needed to support this governance approach have not been developed. To make this approach work requires human resources with educational and practical backgrounds in results measurement and reporting. While there are individuals within the Cayman Islands Government who have such backgrounds, we do not believe that there are sufficient resources currently in place throughout the Government to support the implementation of this approach. Further, we believe that the way in which the approach has been implemented requires considerable human resource inputs while not delivering on the desired focus on results.
27. The PMFL sets out the annual planning and budgeting process that is supposed to establish a strategic direction, and plans and budgets for all government programs and activities to be undertaken in the upcoming year. How these results will be determined, documented, authorized and reported on is complex and can be difficult to follow. During the course of the audit we observed issues about the manner in which these processes are currently being implemented. In Exhibit 5, we have summarized the key stages in the annual planning and budgeting process, how they are supposed to support a focus on results, and our observations on the issues that we see are keeping this aspect of governance from functioning as designed.

Exhibit 5 - Key stages in the annual planning and budgeting process,

PMFL	Role in supporting a focus on results	Audit observation
Strategic Phase	<p><i>Governor in Cabinet</i> sets out in the Strategic Policy Statement, for the current and two following years, its</p> <ul style="list-style-type: none"> • broad outcome objectives • specific outcome objectives • forecast of total executive revenue and expenses • forecast amount of executive expenses to be allocated to each minister, official member, the Office of the Complaints Commissioner, Office of the Information Commissioner and the Audit Office • forecast total amount of core government equity investments, acquisition of other executive assets, and loans • forecast total amount of core government revenue, expenses, borrowing and net worth 	<p>The specific outcome objectives provide little clarity about the intended results set out in the broad outcome objectives.</p> <p>Many of the specific outcome objectives are activity rather than results oriented.</p> <p>The specific outcome objectives included in the Strategic Policy Statement come from input from the ministries and portfolios rather than from Governor in Cabinet. The Statement is supposed to provide top down direction but is instead influenced by bottom up processes.</p> <p>The Strategic Phase is not supported by policy documents that reflect what the intended results are for significant government program areas, such as health and education. Policy development in significant program areas would include the use of methodologies such as result chains or logic models to demonstrate how the intended results are planned to be achieved.</p> <p>The expenditure targets within the Statement has not been used as an indicative budget that ministries and portfolios must adhere to in the planning and budgeting phases.</p>
Detailed Planning and Budgeting Phase	<p>Each <i>Minister and Official Member</i> shall</p> <ul style="list-style-type: none"> • determine the outputs, transfer payments, equity investments, fee changes, and legislative changes to be proposed for the entities for which they are responsible • ensure that a draft annual budget statement is prepared for each ministry or portfolio for which they are responsible • ensure that a draft purchase agreement is prepared for each statutory authority or government company that they are responsible for and for each non-government supplier that they intend to purchase outputs • ensure that a draft ownership agreement is prepared for each statutory authority or government company for which that have responsibility 	<p>As called for in the PMFL, the minister or official member relies on the ministries or portfolios to prepare initial draft documents. However, we could not identify how the GIC communicated its policy priorities to these ministries and portfolios in advance of their preparing the documents. Again, a bottom up process is being followed.</p> <p>The definition of output in the PMFL focuses on “goods and services” while ministries and portfolios have developed draft annual budget statements that focus on activities more than they do services. Often activities are what ministries and portfolios do internally, while goods and services are what they are supposed to produce or deliver on behalf of the GIC.</p>

PMFL	Role in supporting a focus on results	Audit observation
Governor in Cabinet Review Phase	<p><i>Governor in Cabinet</i> shall collectively</p> <ul style="list-style-type: none"> review, and agree or amend the outputs, transfer payments, equity investments and legislative measures proposed by ministers or official members ensure that the annual budget statements, purchase agreements and ownership agreements are consistent with its collective decisions have prepared the annual plan and estimates which summarizes all of the approved input from individual ministers and official members ensuring consistency with the SPS 	<p>Governor in Cabinet must review a significant amount of documentation during this phase. An external review of the planning and budgeting processes estimated that over 2000 pages of information are prepared annually for the GIC to consider. While Governor in Cabinet is supported by Ministry of Finance staff, it is difficult to see how, given time and resource constraints, that this phase could involve anything other than a review of the financial implications of these documents.</p> <p>We observed one broad outcome objective that had specific outcome objectives and outputs aligned with it that actually should have been aligned with another broad outcome objective.</p>
Legislative Assembly Review Phase	<p>The <i>Legislative Assembly</i></p> <ul style="list-style-type: none"> receives and reviews the annual plan and estimates approves the annual plan and estimates by authorizing by law changes to revenues, expenditures (an Appropriation law), and, by resolution, the giving of guarantees 	<p>Appropriation Laws are based on the annual plan and estimates which is organized by outputs, transfer payments, and equity investments. Output costs can only be determined based on an allocation of the input costs incurred by ministries and portfolios. However, the Government's financial accounting systems are not robust enough to provide assurance that these cost allocations are accurate and complete. Further, it has been observed that ministries and portfolios can "cross subsidize" outputs under their responsibility which undermines the authority provided to it under the Appropriation Law. In the end, the Legislative Assembly has no assurance that the Government's spending activity has complied with the Appropriation Law.</p>
Document-ation Phase	<p>The <i>Governor in Cabinet</i> agrees to (based on the authority given by the Legislative Assembly) a</p> <ul style="list-style-type: none"> finalized annual budget statement with each Chief Officer of a ministry or portfolio finalized purchase agreement with each statutory authority, government company or non-governmental output supplier finalized ownership agreement with each statutory authority or government company finalized annual plan and estimate 	<p>We have observed errors in the documents posted on the Ministry of Finance web site. We were informed that these documents were not the final version. Also, some of these key accountability documents are posted only after a significant time delay after approval. This hinders the transparency aspect of the governance framework.</p> <p>We found that the GIC copies accompanying its decision to approve (filed in the Cabinet Office) the annual budget statement was not the finalized version. Therefore, it is difficult to determine which version was actually approved by GIC.</p> <p>By the time these documents are being finalized, the ministries and portfolios have "repackaged" the information at least four times. This represents a considerable administrative burden. Given that the information is not always assembled in similar formats under each phase, there is also an increased chance that errors can occur.</p>

28. The following are further specific observations for each of the result areas that are a requirement of the governance framework.

OUTCOMES

29. The Strategic Policy Statement (SPS) is supposed to annually set the government's strategic direction for the next three years. It is a top down planning document. Broad outcome objectives are developed which set out the high-level results that the GIC intends. We found that these broad outcome objectives were mostly results focused although some did not specify the nature of the intended result. Examples of the results focused broad outcome objectives from the 2012-2013 SPS include Improving Healthcare and Restoring Prudent Fiscal Management. Examples of broad outcome objectives that don't specify the nature of the intended result include "Addressing Energy and the Environment", and "Addressing Crime and Policing". While the broad outcome objectives could be stated more clearly as to intent, this does not undermine the overall focus on results if the specific outcome objectives provide that clarity.
30. Specific outcome objectives are supposed to be developed by GIC. The process for their selection comes from information largely provided by ministries and portfolios about their proposed priority actions or activities. We could not confirm how the 2012-2013 SPS actual specific outcome objectives were selected. Most are not worded in a manner that reflects an intended result. While they confirm for ministries and portfolios which initiatives or activities the Government intends to support, they do not have a result focus.
31. The specific outcome objectives largely reflect initiatives or activities planned for the upcoming year. Examples include, "*Phased completion of the new secondary schools and relocation of staff and students to new sites*" and "*Continue developing environmental health programs in the various districts*". While these are important activities that need to be funded, the manner in which they are worded does not indicate the expected outcome or "the impacts on, or the consequences for, the community".
32. The best example to demonstrate the large gap between a results oriented broad outcome and related specific outcome is in the area of healthcare. The Government's broad outcome objective is "*Improving healthcare*". For the 2012-2013 SPS there were five specific outcomes objectives that fell under "*Improving healthcare*"
- a) Develop a National Strategic Health Plan
 - b) Improve access to healthcare by strengthening and expanding health insurance coverage
 - c) Enhance the capacity of the healthcare system to address mental health needs by establishing a Mental Health Task Force.
 - d) Amendments to legislation including Health Practice Law, Health Insurance and Pharmacy Laws
 - e) Develop policies to support Medical Tourism

33. The second and third specific outcome objectives above provide some clarification about where the Government intends to improve healthcare. The other three specific outcome objectives provide information about actions that the Government would like to undertake but they do not provide information about the results expectations. The last specific outcome objective relates to medical tourism and, as worded, can only indirectly be related to improving healthcare. None of the five specific outcome objectives provides clear, measureable results expectation.
34. We were informed that the SPS forecast of executive revenue and expenses, and the forecast amount of executive expenses to be allocated to each Minister and Official Member, for each of the next three years, are largely based on input from ministries and portfolios and do not reflect Cabinet's strategic view on what revenues and expenditures should be for the upcoming year. From this perspective, they do not provide strategic direction to core government.
35. In implementing the governance framework, there is a big gap between GIC's broad statements of intended results (broad outcome objectives) and the activity focused specific outcomes and outputs. We believe that the primary reason for this disconnect is that national policies that clearly establish the intended results have yet to be developed for important program areas. Policy development is the process by which government identifies the intended results to be achieved for its key areas and how that will be done. Often during policy development logic models or result chains are used to demonstrate and communicate how results are expected to be achieved. For example, these tools would set out how the people and dollars used (inputs) and activities undertaken by ministries and portfolios lead to goods and services produced (outputs) that have an ultimate impact on citizens (outcomes). This type of policy development is needed to support implementation of the governance framework.

OUTPUTS.

36. Each Minister is responsible for working with their ministry or portfolio to determine the outputs, transfer payments, equity investments, changes to fees for Government services, and legislative measures that they feel are necessary to influence the outcomes chosen by the GIC. These are incorporated into an annual budget statement (ABS) for the ministry or portfolio. The ABS is reviewed by the GIC which can make amendments to the proposed outputs. Once agreed to by the GIC the ABS is incorporated into the Annual Plan and Estimates.
37. While outputs are supposed to reflect "goods and services produced by an entity" according to the PMFL, we found that often they reflect the detailed activity being carried out by each ministry or portfolio. By focusing on activities when communicating the outputs to be delivered, the PMFL's intended focus on an integrated approach to results identification is undermined. When this approach was first brought forward in 2001, there was a clearly stated intention that ministries and portfolios would develop, over time, outputs as defined in the PMFL. For the most part, this has not happened.

APPROPRIATIONS

38. The PMFL provides for changes to be made to Appropriation Laws during the financial year through the GIC preparing an amended Annual Plan and Estimates for consideration by the Legislative Assembly. The amended Annual Plan and Estimates becomes the source for a supplementary Appropriation Law which must be authorized by the Legislative Assembly.
39. In 2011-12, the GIC authorized expenditures totaling \$19 million that had not been in the initial Appropriation Law approved by the Legislative Assembly. The GIC failed to obtain the required authorization of a supplementary Appropriation Law for these transactions within the financial year. Ministry of Finance officials provided us with a copy of a 2011-12 Supplementary Annual Plan and Estimates which proposed the additional spending authority but which never was presented to the Legislative Assembly for authorization of the proposed additional funding. The GIC could have obtained approval for these transactions through several other sections of the PMFL that allow for approval of additional spending, under specific circumstances, in advance of Legislative Assembly authority. This did not happen. In the end, the Government actually spent an additional \$14 million through core government that was never authorized by the Legislative Assembly.

SUMMARY

40. Changes to the PMFL in 2001 were to redefine performance to focus on results, and to develop stronger strategic processes linked to the budget, clarify roles, and establish effective accountability mechanisms. The PMFL changes do provide more information to the Legislative Assembly than had been in place previously and some have extolled this as a virtue of this new approach. However, while the new planning and budgetary processes provide details about government activity, they provide very little information about the desired results, other than high-level statements of intent. Greater attention needs to be paid to developing the broad and specific outcomes with more concrete linkages with the outputs, equity investments, executive assets and transfer payments.
41. The new planning and budgeting approach comes at a very high administrative cost. Several recent reviews have raised this point and recommend that the governance framework be “radically” simplified. We concur with this view. However, we believe that any alternative approach that is considered must incorporate a results focus that is supported by appropriate policy development (that includes clarity on the intended results and the logic flow showing how they are to be attained). This policy development should begin first in government’s priority areas.
42. Finally, interviews with ministers, official members and chief officers and recent reviews have indicated that the Strategic Policy Statement is not used as a source of Government strategic direction and it does not guide the development of ministry and portfolio budget requests. The lack of clear strategic direction to guide the planning and budgeting processes means that the focus is on a short-term perspective.

Recommendation #1: The Government should consider making changes to the Public Management and Finance Law and Regulations to incorporate simplified processes for setting the Government’s strategic direction and for planning and budgeting leading to Appropriation Laws. Changes to the governance framework should be appropriate to the size and capability of the public service, and it should incorporate a results focus.

Recommendation #2: The Government, supported by the Deputy Governor, should undertake policy development, in priority areas, so as to clarify intended results and to better inform its planning and budgeting process.

Recommendation #3: The Government should comply with the Public Management and Finance Law when seeking authority for its planned spending.

ROLES ARE CLEARLY DEFINED BUT ARE NOT ALWAYS FOLLOWED

43. The principles for good governance call for a governing body to set out clearly its approach to performing each of the functions of governance. This should include a process, agreed with the executive, for holding the executive to account for achieving agreed objectives and implementing strategy. The roles of ministers and chief officers should be separate and provide a check and balance for each other’s authority. The governing body should ensure that the organisation engages effectively with the public and service users to understand their views.
44. The core government governance framework in the Cayman Islands has been established by the Constitution, the Public Management and Finance Law (PMFL) and Regulations, and the Public Service Management Law (PSML) and Regulations. The framework follows the Westminster form of government as modified for a United Kingdom Overseas Territory. The framework establishes the functions and responsibilities for the Governor in Cabinet, the Premier and ministers, the Governor, Deputy Governor, ministries and portfolios, chief officers, Attorney General, Financial Secretary, and the Cabinet Secretary. In addition, it establishes a role for three independent officers, the Auditor General, the Information Commissioner, and the Complaints Commissioner, who report to the Legislative Assembly.
45. Therefore, we expected to find that the governance framework has clearly defined functions and roles with appropriate oversight to ensure they are being followed.
46. The Constitution, PMFL and PSML provide clarity about the functions and roles of various players but there are some specific areas where ambiguity exists. In addition, we found situations where the established legislative requirements have not been followed.

RESPONSIBILITIES OF MINISTERS VERSUS CHIEF OFFICERS.

47. While we believe that roles and functions are in the main clearly defined, we have observed that the legislated roles and functions are not always respected. The most obvious deviation from what is expected is when ministers attempt to influence the ongoing operations and decisions of chief officers and their ministries and portfolios. With respect to outputs, ministers are supposed to work with their ministry or portfolio during the planning and budgeting phase to identify the outputs that the ministry or portfolio should deliver to meet the government's strategic direction. However, once the outputs have been approved, the Minister should not be concerned with how the chief officer goes about delivering the outputs and they are by law prevented from becoming involved. Section 22 of the PSML provides a mechanism for dealing with situations where political pressure is placed on chief officers. In recent audits, the Office has observed that ministers do not always respect this aspect of the PMFL. The following are examples of audit reports that have been tabled with the Legislative Assembly that report on ministers being involved in the operational aspects of a ministry or portfolio

- Management of Major Capital Projects (June 2012) – Governance framework not respected in high school acquisition decision making process, and Minister chaired an operational steering committee for construction of the General Administration Building.
- Road Paving Expenditure in Cayman Brac (April 2012) - – Minister involved in the decision making as to who receives benefits.
- Management of Government Procurement – Case Studies – Government Borrowing of \$155 Million (August 2011) – Minister involved in the sourcing and selecting organization used in borrowing process.

Recommendation # 4: Ministers should respect the roles and responsibilities of Chief Officers as established by the Public Management and Finance Law.

LEADERSHIP FOR FINANCIAL MANAGEMENT.

48. In a 2011 report prepared by consultant Keith Luck entitled *“Review of the Financial and Human Resource Management System Operated by the Cayman Islands Government”*, it was reported that there was *“a lack of clarity in leadership of financial management at the heart of Government.”* The report went on to observe that PMFL changes in 2004 were intended to bring about this leadership but that no one person had taken ownership of this role. It noted that the Minister of Finance leads on behalf of the GIC which has the overall legislated responsibility. However, the Minister of Finance was also the Premier, and had other responsibilities such as tourism and development. The report observed that the extent of these responsibilities limits the ability of one minister to lead on financial management issues.

49. The report called for a clear civil service lead and recommended that the chief officer with the responsibility for the financial functions being clearly designated to do this. In our view, the Deputy Governor, as Head of the Civil Service, could be viewed as having the authority to ensure that there is leadership on financial management issues. We will speak to this point later in this report when covering issues associated with reporting on results and accountability but we concur with the Luck reports recommendation that the chief officer with the responsibility for financial functions should be tasked by the Deputy Governor to take the lead on these matters.
50. The 2009 Constitution changes transferred many responsibilities formally held by the Financial Secretary to the Minister of Finance. It provided the Financial Secretary with the role of advisor to the Minister of Finance. In addition, the PMFL Regulations provide the Financial Secretary with responsibilities including a role of establishing the Public Sector Investment Committee, appointing members to the Central Tenders Committee, and the responsibility for defining what expenses should be either considered executive or entity. The Financial Secretary is appointed by the Governor under section 9(1) of the PSML and is supposed to have the necessary skills, knowledge and integrity to carry out the duties of the position in a “*highly competent and politically neutral manner*”. Most of his responsibilities are closely associated with those of the Minister of Finance. In our interview, the Chief Officer of Public Finance felt answerable to both the Minister of Finance and the Financial Secretary but believed that the accountability relationship was not clear. The Financial Secretary receives administrative support through the Chief Officer of Public Finance. There is room for confusion. For example, the Financial Secretary is responsible for establishing PSIC but it was the Minister of Finance who reported in November 2011 that PSIC was being re-established. To date, PSIC has yet to be re-established.

Recommendation #5: The Deputy Governor should ensure that there is a clear lead responsibility identified for the financial function across the public service. As part of the Deputy Governor’s direction on financial leadership, he should clarify the responsibility of the Financial Secretary’s for providing such leadership. Should the Deputy Governor determine that legislative changes are required, he should propose such changes to the Government.

EXECUTIVE EXPENSES

51. The PMFL allows for executive expenses to be incurred under the authority of a minister, and outside of the purview of the chief officer. Chief officers are responsible for entity expenses that are incurred by their ministry or portfolio, and for ensuring that adequate controls are in place for entity expenses. In practice, executive expenses may or may not be subject to the same controls or oversight provided for entity expenditures that flow through a ministry or portfolio. Our enquiries with ministries revealed that each executive expense is handled differently. While there is a clear charge for a chief officer to establish appropriate controls over entity expenditures, the PMFL is less clear about how executive expenses are to be controlled.

52. Although a minister has a role in the administration of a ministry or portfolio, largely through the identification of outputs to be provided (pursuant to Section 39 of the PMFL), the chief officer must, at a minimum, agree to the administrative mechanism (inputs) by which the ministry's outputs, are to be achieved and his or her agreement in this regard must be informed, voluntary and affirmative. We have observed instances where ministers have established administrative responsibilities outside of their ministry, without the input and approval of the chief officer. Non-public servants have been given the authority over public funds yet they are not subject to the requirements of the PMFL or PSML as are public servants. It should be noted that in some other jurisdictions, expenditures that have been left to the responsibility of ministers or other politicians without having to go through the normal controls expected within government ministries have resulted in the misuse and abuse of funds. In some cases, criminal charges have been made against these individuals. In the end, any government expenditure that does not have to follow appropriate controls with the resulting accountability is at a higher risk of abuse and misuse. We believe that the Government should review whether there is a need for executive expenses at all. Recent initiatives in the Turks and Caicos to simplify and strengthen the financial control systems may be informative to such a review.

Recommendation #6: The Government should review and determine whether there is a need for the use of executive expenses within the governance framework. The Government should clarify that, in future, all executive expenses, at a minimum, must follow the same control processes as followed with entity expenses, and there should be clarity about the respective roles of ministers and chief officers.

OTHER ISSUES

53. The PMFL has given the responsibility for specific functions to both the GIC and the Minister of Finance. For example, both have been given the responsibility for ensuring that the Government's annual report is tabled with the Legislative Assembly within 5 months and two weeks of the end of the fiscal year. This responsibility has never been fulfilled. In addition, both have been given responsibility for monitoring purchased outputs and ownership performance of ministries and portfolios.
54. It is very difficult to see how either GIC or Ministers could carry out their respective monitoring roles to ensure that ministries or portfolios had delivered the expected results agreed through annual budget statements. Firstly, GIC and Ministers do not have extensive staff that can do this work on their behalf. Secondly, while ministries and portfolios have staff members who could do that work, they would be monitoring the work of their own organization. Further, the information contained in the annual budget statements is so detailed and at a low level that it is largely irrelevant to ministers or the GIC.

55. Later in this report, we will summarize all of the issues related to the planning and budgetary processes laid out in the Public Management and Finance Law and provide specific recommendations for the Government.

VALUES AND ETHICS ARE PROMOTED BUT IMPLEMENTATION IS A PROBLEM

56. Good governance cannot be reduced solely to a set of rules, or achieved fully by compliance with legislative or other requirements. Good governance flows from a shared culture that can be expressed as values and demonstrated by behaviour. It builds on the seven principles for the conduct of people in public life, the United Kingdom’s Committee on Standard’s in Public Life principles: selflessness, integrity, objectivity, accountability, openness, honesty and leadership.
57. The governance framework has provided a very solid foundation for values and ethics. For the public service, the values and Code of Conduct are legislated and clear responsibility has been given to chief officers to ensure they are known throughout the public service and are being followed. In recognition of their importance to good governance, the Portfolio of Civil Service has also been given responsibility to promote them. The Constitution has set forth the concept of the Commission for Standards in Public Life, and the Register of Interests for elected officials, both of which promote concepts of ethical behaviour for the leaders of the country. In addition, the Anti-Corruption Law establishes clear ethical responsibilities for members of the Legislative Assembly and public officers.
58. Therefore, we expected to find that the governance framework establishes and promotes values and ethics as a guide to public service behavior and decision making.
59. The Constitution, Anti-Corruption Law and PSML provide strong guidance on the values and ethics that are being promoted. They also establish penalties for non-adherence to these values and ethics. However, we found that a management policy that elaborates on how the legislation is to be implemented, promoted and enforced is not in place.
60. Given the size of the Cayman Islands population and the limited number of people who are able to assume decision making positions within government, conflict of interest issues will always be a concern that needs to be addressed. With the heightened possibility of conflict of interest issues, the Deputy Governor should put additional effort into the development of policy that clarifies how conflict of interest specifically should be addressed in a Cayman Islands context.
61. The Cayman Islands does not have any legislation in place to protect “whistle blowers” or those individuals who provide information to the government about wrongdoing. In many other countries, many larger than Cayman Islands, the need for this kind of protection for individuals has been seen as critical for a well-functioning public sector governance framework.

62. Within ministries and portfolios there is active promotion of the legislated values and ethics and the Portfolio of Civil Service has incorporated values and ethics into its orientation seminars. While it is clear that strong values and ethics are promoted, it is less clear how well these values and ethics are being followed and if there is a “culture” for its implementation.
63. During interviews with officials, we heard that the expectations for values and ethics in legislation may be clear but that there is a culture that chooses to ignore them or to apply them selectively. This is a difficult observation to support in an audit context. However, the OAG has made observations in recent years that reflect behaviors that are seriously outside of the legislated values and ethics. Three examples that demonstrate behaviours outside of the values and ethics, and which are at different level within the governance structure, can be found in the following audit reports:
- Fuel Card Usage and Management Follow-up (May 2012) and the original report in February 2010 – Observed about the misuse of fuel cards to access fuel for personal purposes.
 - Management of Government Procurement – Case Studies – Government Borrowing of \$155 Million (August 2011) - reported on the lack of due process followed with regard to the procurement of government borrowing and override of process by politicians
 - Management of Government Procurement (July 2011) – lack of clear roles and responsibilities, policies and process for one of the most important public sector activities leading to lack of due regard for value-for-money and opportunities for corruption.
64. The Commission for Standards in Public Life has highlighted the need for the enactment of enabling legislation to ensure that the Commission can fully perform its Constitution-mandated functions in a proper, timely and effective manner. The Commission is of the view that the lack of supporting and enforceable legislation renders its Constitution-based mandate meaningless. In its reports, the Commission specifically mentioned that the absence of enabling legislation impacted its responsibility to maintain a Register of Interests for elected officials, and its ability to monitor compliance with and investigate potential breaches of the Constitution based standards in public life.
65. The Deputy Governor has indicated to us that he will be recommending a Code of Conduct for Ministers and Members of Cabinet which includes conflict of interest issues.

Recommendation #7: The Government should develop a conflict of interest policy that takes into consideration application within the Cayman Islands context and which covers both members of the Legislative Assembly and civil servants. The Deputy Governor should ensure that all within core government are trained in how the policy should be implemented and ensure that the policy is enforced.

Recommendation #8: The Government should proceed with legislation to establish the framework for the Commission for Standards in Public Life to operate and enable its Constitution-mandated functions.

GOVERNANCE IS WEAK OVER DECISION MAKING PROCESSES

66. Decision making in governance can be complex and challenging. To make decisions that best further the government's objectives and strategic direction, those that govern must be well informed. Decision making needs the support of good information that comes from supporting management systems to proactively encourage and ensure compliance with established legislation and policies, to ensure that there is due regard for value for money. Risk management is important to the successful delivery of public services as it proactively identifies, assesses and addresses uncertainty and potential obstacles to achieving government's objectives.
67. The PMFL is clear that it is the responsibility of the GIC, and ministers and official members to decide what is to be done, that is set policy, and it is the responsibility of the chief officers to decide how things are to be done, or the delivery of outputs. Chief Officers play an important role in providing the GIC, through the Public Sector Investment Committee, with relevant information for making decisions on major capital projects. The Central Tenders Committee plays an important role in supporting significant procurement decision making. The PMFL and Regulations do not establish a specific role for GIC in the approval of significant procurements, including major projects. However, through past GIC policy decisions, significant procurement decisions are often reviewed and approved by the GIC.
68. We expected to find that submissions to GIC for significant transaction and policy decisions identify clearly the need being addressed, document viable options for addressing the need, include a complete analysis of the options, and a conclusion reached on the alternatives and a recommendation. We expected to find that Decisions of Cabinet are accurately communicated to chief officers. Also, an effective risk management process is in place to identify, evaluate and respond to risks that could impact on the achievement of results.

POLICY DEVELOPMENT

69. The Cabinet Secretary, under section 48 of the Constitution, is required to provide "frank and politically neutral advice to the Governor, the Cabinet and the Premier on matters of policy". Policy recommendations are also given to Cabinet by ministries and portfolios. However, we have been informed that there is limited capacity to support policy development either by the Cabinet Secretary, who has recently hired a staff person to work on policy, or within ministries and portfolios. Since policy decision making is a key role of Cabinet within the governance framework, this is a significant weakness that can undermine strong governance and the ability of the GIC to establish its strategic direction.

70. According to the Commission for Standards in Public Life there are not specific requirements for obtaining stakeholder input into policy development. Such input is an important aspect of governance in that it supports the development of clear results expectations that have broad support. Given the absence of policy development, there has been little opportunity for obtaining stakeholder input.

PROCUREMENT

71. Recent OAG reports, Management of Government Procurement (July 2011) and Management of Major Capital Projects (June 2012), have focused on weaknesses in governance and the decision making processes related to government procurement and major capital projects. Specific observations were made related to the roles of the Central Tenders Committee and Public Sector Investment Committee, and how the GIC was not being adequately served regarding information being used to make decisions on government purchases and the procurement of major capital projects. In addition, recommendations were made that sought greater clarity in the governance arrangements over procurement transactions, specifically as it relates to the roles of the GIC, ministers, and ministries and portfolios.
72. The Framework for Fiscal Responsibility and recent other reviews have made similar observations about the need for improved procurement practices, and the need for the re-establishment of the Public Sector Investment Committee.
73. To-date, these recommendations have not been acted upon and the weaknesses identified in these reports still exist. The Deputy Governor has indicated to us that he has conducted a review of all procurement processes and action is underway.

GIC DECISION-MAKING

74. Policy and individual transaction recommendations are also provided to Cabinet by ministries and portfolios. For these submissions the Cabinet Secretary has put in place a prescribed format that requires preparers to provide relevant background information, a general discussion on the topic and to specifically consider financial, legal and public service implications. The format requires a specific recommendation to Cabinet. We found that this format is largely being followed for the submissions to Cabinet that we examined. Decisions of Cabinet were summarized and appropriately reported to chief officers. However, we did observe that exceptions are made for certain submissions.

75. One exception that we noted was a submission to Cabinet prepared by the Premier summarizing his personal intervention in a transaction with a major cruise ship company. He sought quick approval for expenditures to ensure that an arrangement with the company to bring its cruise ships to Grand Cayman would proceed. We found no evidence that there was any input from the chief officer or the ministry on this arrangement or the requested support to make the arrangement proceed. However, the proposal planned for expenses to be borne through the ministry as part of its outputs to be delivered to the GIC. In the end, the company did not proceed with the arrangement. We believe that the manner in which this transaction was brought forward to the GIC for consideration did not respect the requirements of the governance framework.

RISK MANAGEMENT

76. The governance framework calls for risk management to be considered within the planning and budgeting phase. This is done annually to meet the minimum requirements of the planning and budgeting process. However, when we reviewed the current process, we found that the risks that are reported on are more operational in nature and are not focused on areas that would impact the achievement of the GIC strategic direction. Also, there are not risk management systems in place that, on an ongoing basis, identify, evaluate and respond to risks that could impact on the achievement of results.
77. There is an established process for identifying and mitigating risks associated with government insurance expense. This is important as it focuses on reducing the government's insurance related costs but it is not focused on risks that could impact on the achievement of results. We have not made a recommendation related to risk management as the requisite focus on results is not currently in place. To be successful, risk management can only be implemented where the results expectations are clearly known.
78. The governance framework is clear that the GIC's role is to set strategic direction and to approve government policy. Chief Officers support the GIC in its role but they are responsible for managing the delivery of agreed upon outputs that meet the Government's strategic direction and which adhere to government policy.
79. The governance framework does not provide clarity over decision making, and roles and responsibilities for significant transactions such as government procurement. In the absence of specific direction, the PMFL and Regulations would appear to dictate that chief officers are responsible for all transactions that are completed by their ministries and portfolios. However, past practice has been that the GIC and ministers have played roles in such decision making. How this is done, in practice, is ad hoc in nature and without any formal guidance. There is an absence of transparency over who is responsible and for what over these transactions.

Recommendation #9: The Government should implement a governance structure for significant government transactions, such as procurement, that provides clarity and transparency about the roles of the GIC, ministers, and chief officers, and which is in keeping with past recommendations of the Office of the Auditor General.

ACCOUNTABILITY RELATIONSHIPS ARE NOT SUPPORTED BY CREDIBLE AND TIMELY REPORTING OF RESULTS

80. There are two basic types of accountability in government – political and management. Political accountability is normally associated with ministers being accountable to the legislative body. While management accountability is more diffuse throughout the rest of the governance framework. At a minimum, chief officers account to their ministers for the work done by their ministries. Other public servants are answerable to their superiors for accomplishing goals and using resources responsibly. Transparency is a key element of effective accountability.
81. Accountability is supported by clear roles and responsibilities, clear performance expectations, expectations that are balanced with a capacity to deliver, credible and timely reporting, and reasonable review and adjustment. Accountability is interested in engaging with stakeholders to understand and respond to their views as the organization plans and carries out its activities.
82. The Cayman Islands governance framework is structured such that the GIC is responsible for establishing the strategic direction through the Strategic Policy Statement and the GIC requests approval for spending authority from the Legislative Assembly through submitting Annual Plan and Estimates that reflect output groupings that are designed to deliver against the Government’s strategic direction. The GIC is accountable to the Legislative Assembly for annually reporting financial and non-financial performance information for authorities granted by it in Appropriation Laws. See Exhibit 3 which reflects the key accountability relationships associated with the governance frameworks integrated planning, budgeting and reporting processes.
83. There are fundamental weaknesses in the implementation of the governance framework that means that the key accountability relationships are not functioning as designed. Government has not met PMFL reporting requirements and the information that is being provided to the GIC and the Legislative Assembly is neither credible nor timely. We have found that the Government cannot assure the Legislative Assembly that it has complied with Appropriation Laws that set out how much and on what the Government can spend.

84. Appropriation Laws passed by the Legislative Assembly are approved based on the forecast output costs by ministries and portfolios that are summarized into output groupings in the Annual Plan and Estimates. GIC is responsible for ensuring that the amounts approved for spending by the Legislative Assembly are respected and they are spent for the approved purposes. Therefore, the GIC's primary accountability to the Legislative Assembly is through the previously described integrated planning and budgeting approach.
85. Currently, ministries and portfolios accumulate expenditures largely on an input rather than output basis. To get the required information on an output basis means that cost allocation systems have to be developed. These cost allocation systems are currently either not available or unreliable. Therefore, ministries and portfolios cannot always provide actual cost information for their outputs. We observed instances where ministries have exceeded their approved spending because of inadequate cost allocation systems. An inability to account to the Legislative Assembly for funds expended compared to those authorized is a fundamental weakness.
86. We have already established that there are significant weaknesses in the setting of results expectations under this approach. In 2011, the PMFL was amended to eliminate the requirement that the GIC report annually to the Legislative Assembly on an output basis. The PMFL still requires the GIC to "report the performance of the core government and the entire public sector and compare it with that proposed in the annual plan and estimates for that financial year". However, the GIC does not have the actual performance information to meet this PMFL general requirement. Ministries and portfolios have not established adequate systems for the capture of costs on an output basis so the PMFL amendment reflects this shortcoming in their reporting capability. In the end, the GIC cannot fully meet its responsibility to account to the Legislative Assembly for amounts approved under Appropriation Laws.
87. While the GIC is responsible to the Legislative Assembly to report against the approved appropriations, the GIC relies on ministries and portfolios to provide it with this information. The Deputy Governor has overall responsibility for the administration of the public service and, therefore, has responsibility for ensuring that appropriate systems and practices are in place to support the governance framework. The Public Management and Finance Law and Financial Regulations also provides specific direction to chief officers on financial accounting and reporting requirements and charge them with ensuring that adequate systems and practices are in place.
88. Finally, the Government has reported to the Legislative Assembly that it has overspent the Appropriation Laws authority for core government spending by \$14 million in 2011-12 and \$4 million in 2010-11. While the Government cannot report on the detailed outputs approved under Appropriation Laws, it has also demonstrated that it cannot adhere to the total approved spending limits imposed by the Legislative Assembly.

89. Financial information on core government activity has been historically late and, therefore, not subject to audit on a timely basis. Improvements have been made in recent years regarding financial information. However, information on the non-financial results achieved by government programs is largely not available. The Office's October 2012 report entitled Financial and Performance Reporting: Progress Update as at October 2012 concluded the following about financial reporting

“Whilst these improvements in timeliness and quality are welcome and represent significant progress, this is all relative to position that Government financial reporting had reached. There is still a way to go before it can be said that financial accountability has been restored, with credible financial information being tabled in the Legislative Assembly in line with the statutory timetable.”

90. Under Section 29(1) of the PMFL, the Government is required to report on “the performance of the core government and the entire public sector and compare it with that proposed in the annual plan and estimates for that financial year”. That report is to be tabled in the Legislative Assembly within 5 months and two weeks of the financial year end. The government's audited financial statements are to be included. This requirement has not been met. Also, the government's audited financial statements have not been completed within this timeline. The OAG is currently working on the audit of the June 30, 2013 financial statements. The Government's financial statements for fiscal years ending in 2013 and 2012 were submitted on time, but quality is still an issue.
91. Section 44(2) of the PMFL calls for each ministry and portfolio to prepare an annual report that reports on the organizations actual performance and compares it with that set out in their Annual Budget Statement for that financial year. That annual report is to include the audited financial statements for that financial year. The annual report is to be presented to the GIC within four calendar months of year end. No ministries or portfolios have met this requirement. The ministries and portfolios annual reports are to be tabled in the Legislative Assembly at the same time as the Government's overall annual report (under Section 29(1) of the PMFL) is tabled. This has not happened. More detailed reporting requirements were repealed in 2011 to reduce the administrative impact on ministries and portfolios. Yet, these new, reduced requirements have not been met.
92. Ministries and portfolios have all submitted their financial statements for audit within the 2 calendar months requirement for the fiscal years ended June 30, 2012 and 2013. However, these financial statements will not all be audited in line with the statutory timetable as the OAG continues to work on completing financial statements related to previous financial years

93. In 2011, the PMFL was amended to eliminate requirements for quarterly reporting of financial and non-financial information. Given the problems that the government has with meeting the annual reporting requirements, the move away from these more demanding quarterly reporting requirements in the interim makes sense.

CHIEF OFFICER PERFORMANCE EVALUATION

94. Chief Officer performance is sometimes evaluated annually. We found that some chief officers have had their performance evaluated recently while others had not. When chief officer's performance is evaluated, Annual Budget Statements serve as guide for their expected performance in that they focus on the delivery of the agreed upon outputs. It has been pointed out to us that the Annual Budget Statement information is very detailed and it is not important to what chief officers' view as their performance expectations. Further, ministries and portfolios have not been able to report on their actual performance on an Annual Budget Statement's output basis. For some chief officers, the evaluation process used in the past is not valid. Chief Officers hold a key position within core government and a credible annual performance evaluation is vital to ensure that they are held accountable for the performance of their organizations. Since conducting our audit work, the Deputy Governor has recently instituted a new chief officer performance evaluation process.

Recommendation #10: The Deputy Governor should continue to address the Government's inability to meet the Public Management and Finance Law financial statement reporting requirements.

Recommendation #11: The Government should complete a review of all of its planning, budgeting and reporting requirements in the Public Management and Finance Law with view to proposing a simplified approach that focuses on results to be achieved and a capability to account for both the financial and non-financial performance of the Government as a whole and individual ministries and portfolios.

LEGISLATORS SHOULD BE PROVIDED GOVERNANCE TRAINING

95. Government can be highly complex and challenging to manage so it needs people with the right skills to direct and control government effectively. A governing body with elected members should commit itself to developing the skills that it has decided its members need, so that they can carry out their roles more effectively.
96. The Cayman Island governance framework is relatively new with the Constitution dating to 2009 and with major amendments to the PMFL occurring in 2005 and 2011. Given the size of the Cayman Islands, the governance framework can be quite complex. For those reasons, education about the functioning of the governance framework is important.

97. Legislators have indicated to us that they did not always have knowledge of the governance framework before taking on their responsibilities. Legislators, whether in government or opposition, could benefit from an induction or orientation program on the key aspect of the governance framework. Such training has been provided in the past but the legislators we talked with felt that they would have benefited from enhanced training. The Deputy Governor indicated that mandatory governance instruction would be recommended for all legislators and this started in late 2013.
98. Public servants have access to courses that describe governance arrangements. However, it is not clear how many public servants have taken advantage of such training opportunities.

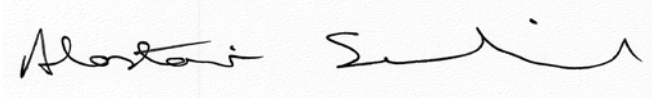
Recommendation #12: Members of the Legislative Assembly should be provided with an orientation program on the governance framework shortly after an election is held.

CONCLUSION

99. The core government governance framework is largely established through the Constitution, the *Public Management and Finance Law (PMFL)*, and the *Public Service Management Law (PSML)*. Our audit found that the legislation is fundamentally strong but there are aspects of the legislation that are difficult for government to implement as it is too complex and demands too many administrative resources for the benefits being received. We are concerned that not all aspects of the governance framework are being implemented which weakens overall governance. In addition, the governance framework does not adequately clarify the roles to be played by the GIC, ministers, and chief officers for significant transactions, such as procurement and major capital projects.
100. The Government has now entered into an agreement with the United Kingdom, the Framework for Fiscal Responsibility, which sets out a plan for returning to a financial position that can meet the specific financial result expectations that are embedded in the PMFL. There are also requirements in the agreement for the Government to address weaknesses in the governance framework.
101. Changes made with the introduction of the PMFL were made to redefine performance to focus on results, develop stronger strategic processes linked to the budget, clarify roles, and establish effective accountability mechanisms. Our audit has found that the desired impact of the changes has largely not been achieved.
102. The governance framework does not have a focus on achieving clear and measureable results for citizens and service users with the exception of the PMFL's principles of responsible financial management. High level statements of intended results are part of Governor in Cabinet's (GIC) Strategic Policy Statement but each succeeding planning phase after the SPS is increasingly focused more on government activities. Cabinet has not ensured that national policies have been developed that set out what is expected to be achieved and how it will be achieved for significant areas of government operation, for example health and education.
103. The Constitution, PMFL and PSML provide clarity about many functions and roles of various players; yet, the governance framework is very complex and some aspects have proven costly and difficult to implement. We are concerned that there are some specific areas where ambiguity exists or where there is potential exposure for misuse and abuse of public funds.

104. We observed instances where the roles identified in the governance framework are not being fulfilled. For example, it is GIC prime role to establish policies that are to guide ministries and portfolios' program implementation. Many national policies don't exist in written form with Cabinet making most decisions as important matters arise. However, for many of these decisions, the governance framework clearly gives these responsibilities to chief officers as part of their responsibilities to deliver the outputs that they have agreed to deliver to the GIC. There is a need for the roles of the GIC, ministers and chief officers over significant government transactions to be clarified within the governance framework.
105. The Constitution and PSML establish and strongly promote values and ethics as a guide to public service behavior and decision making. We are concerned, however, that many officials we talked with felt that there is a culture that chooses to ignore the legislated values and ethics, or applies them selectively. There is a need for the Deputy Governor to provide leadership for developing and enforcing a policy that clarifies how the PSML should be implemented. It is clear that legislation alone will not ensure that the desired values and ethics are followed.
106. The Commission for Standards in Public Life is an important part of the values and ethics approach but it has not been given the necessary enabling legislation to ensure that the Commission can fully perform its functions in a proper, timely and effective manner. The absence of enabling legislation impacted its ability to maintain a Register of Interests for elected officials, and to monitor compliance with and investigate potential breaches of the Constitution based standards in public life.
107. Submissions to Cabinet for key decisions identify clearly the need being addressed, document viable options for addressing the need, include a complete analysis of the options, and a conclusion reached on the alternatives and a recommendation. Decisions of Cabinet are accurately communicated to Chief Officers. While most items we examined met these requirements, we did observe that exceptions arise where submissions do not follow the established procedures.
108. The governance framework calls for risk management to be considered within the planning and budgeting phase. This is done as part of the annual planning and budgeting process but it is not supported by an ongoing risk management system that identifies, evaluates and responds to risks that could impact on the achievement of results. Those risks identified during the planning and budgeting process focus more on operational issues rather than risks that could impact the achievement of results.
109. The governance framework is not supported by credible and timely reporting of results. Financial information on core government, either for all of government or for individual ministries and portfolios, has been historically late or not subject to audit on a timely basis. The OAG continues to identify significant financial management issues within core government. We have observed that improvements have been made in recent years. However, information on the results achieved by government programs is largely not available. Combined these observations mean that accountability within core government is significantly undermined.

110. Throughout this report, we have reported our concerns for the manner in which key aspects of the Public Management and Finance Law is being implemented. We believe that together the issues faced are so significant that the Government should consider whether a new simplified approach is needed. This would require the PMFL to be fundamentally overhauled.

A handwritten signature in black ink, appearing to read 'Alastair Swarbrick', is positioned above a light grey rectangular background.

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

20 December 2013

APPENDIX 1 - ABOUT THE AUDIT

OBJECTIVE

1. The audit objective was to determine whether the core government governance framework is being applied in practice and whether it meets good governance principles for public organizations as appropriate for the Cayman Islands.

SCOPE

2. This audit focuses on the core government governance framework. Core government is defined in the Public Management and Finance Law (PMFL) as the Legislative Assembly, the Governor in Cabinet, ministries and portfolios, the Office of the Complaints Commissioner, the Office of the Information Commissioner, the Audit Office, and includes the equity investment in statutory authorities and government companies. The governance framework is largely defined by the Constitution, the PMFL, and the Public Service Management Law (PSML).
3. The description of the governance framework in the *“Describing the Framework”* report is the context for this audit. The report’s description of the core government governance framework was used as the point of comparison with actual governance practices to see whether the legal form was being complied with. While compliance with the Constitution and laws and regulations is important and should be an observation, where applicable, non-compliance may reflect legal requirements that do not make sense in the current environment.
4. The audit included all administrative areas of the core government governance framework except for the roles of the Governor, legislature, judiciary and police.
5. Concurrent with this audit, we conducted an audit that focuses narrowly on the accountability relationship between core government and the nineteen statutory authorities and seven government companies. Where there is some overlap between governance for core government and that for statutory authorities and government companies, we have covered those overlapping areas within this report.
6. The Good Governance Standard for Public Services, a January 2005 report produced by the United Kingdom’s Independent Commission on Good Governance in Public Services, served as the primary source for the audit criteria. The six principles of good governance from that report include:

- a) Focusing on the organization’s purpose and on outcomes for citizens and service users.
 - b) Performing effectively in clearly defined functions and roles.
 - c) Promoting values for the whole organization and demonstrating the values of good governance through behavior.
 - d) Taking informed, transparent decisions and managing risk.
 - e) Developing the capacity and capability of the governing body to be effective.
 - f) Engaging stakeholders and making accountability real.
7. The Commission concluded that the Good Governance Standard would apply to many types of organizations including central government and public sector organizations. It recognized that some governing bodies would be elected and others would be appointed. So the Good Governance Standard has wide applicability which would include the Cayman Islands’ core government governance framework.

CRITERIA

8. The audit used seven criteria against which we evaluated the audit findings. Senior officials, including the Deputy Governor, agreed with our criteria at the outset of our audit.
- a) The governance framework is focused on achieving clear and measureable results for citizens and service users.
 - b) The governance framework has clearly defined functions and roles with appropriate oversight to ensure they are being followed.
 - c) The governance framework establishes and promotes values and ethics as a guide to public service behavior and decision making.
 - d) Submissions to Cabinet for key decisions identify clearly the need being addressed, document viable options for addressing the need, include a complete analysis of the options, and a conclusion reached on the alternatives and a recommendation. Decisions of Cabinet are accurately communicated to Chief Officers.
 - e) An effective risk management process is in place to identify, evaluate and respond to risks that could impact on the achievement of results.
 - f) There is credible and timely reporting of results that sets out corrective action where targeted results have not been met.
 - g) There is an ongoing program to develop the capacity and capability of elected and appointed officials.
9. The source for the criteria comes from The Good Governance Standard for Public Services: The Independent Commission on Good Governance (United Kingdom 2004). The good governance standards developed by the Commission are recognized as a reliable source and are in keeping with other similar international guidance. In keeping with the Commission’s finding, the criteria were developed with view to an application that is relevant to the context and culture of the Cayman Islands.

AUDIT APPROACH AND METHODOLOGY

10. The audit was conducted in accordance with International Auditing Standards and used performance audit methodology commonly applied by supreme audit institutions. Specifically, we performed the following audit procedures:

- Interviews with the Governor and politicians (Hon. Julianna O’Connor- Connolly and Hon. Marc Scotland);
- Interviews with the Deputy Governor, Cabinet Secretary, and Financial Secretary,
- Interviews with most Chief Officers of the ministries and portfolios, and with the Director of Internal Audit.
- Review of relevant legislation, regulations, guidance and independent reviews conducted on aspects of the governance framework;
- Review and analysis of documentation supporting the key governance processes, including the Strategic Policy Statement, annual budget statement, annual plan and estimates, annual reports, and audited financial statements;
- Prepare a draft audit report including the key findings and recommendations; and
- Clear the draft audit report for factual accuracy.

TIMING AND AUDIT RESOURCES USED

11. The audit commenced in mid 2012 and was completed in July 2013. The following individuals conducted the audit:

- Martin Ruben, FCGA – Performance Audit Principal
- Daryl Wilson, FCA – audit consultant
- Kevin Potter, CMA – audit consultant

APPENDIX 2 - SEVEN PRINCIPLES OF PUBLIC LIFE.

The United Kingdom's Committee on Standard's in Public Life has operated since 1994 providing guidance on values and ethics in public life. The Committee developed seven principles of public life. These principles can be informative when considering good governance in the Cayman Islands.

Selflessness: Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.

Integrity: Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

Objectivity: In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability: Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness: Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

Honesty: Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership: Holders of public office should promote and support these principles by leadership and example.

APPENDIX 3 - RECOMMENDATIONS AND MANAGEMENT’S RESPONSE

Recommendation	Management Response	Responsibility	Date of planned implementation
<p>1. The Government should consider making changes to the Public Management and Finance Law and Regulations to incorporate simplified processes for setting the Government’s strategic direction and for planning and budgeting leading to Appropriation Laws. Changes to the governance framework should be appropriate to the size and capability of the public service, and it should incorporate a results focus.</p>	<p>The Government has set up a committee to review the PMFL to be chaired by Councillor McTaggart and consisting of government and private sector accountants and the Auditor General.</p>	<p>Ministry of Finance and Economic Development</p>	<p>Committee to meet in January 2014 and final report to be issued by 31 March 2014</p>
<p>2. The Government, supported by the Deputy Governor, should undertake policy development, in priority areas, so as to clarify intended results and to better inform its planning and budgeting process.</p>	<p>The Cabinet Office is responsible for coordinating government policy. The Director of the Policy Unit has trained over 300 civil servants since 2012 and the programme is ongoing. This will be extended to SAGC in 2014</p>	<p>Cabinet Office</p>	<p>On going</p>
<p>3. The Government should comply with the Public Management and Finance Law when seeking authority for its planned spending.</p>	<p>Agree, compliance with the PMFL is a part of the Chief Officers performance agreement and assessment process</p> <p>The Internal Audit Unit, which is now reports to the Deputy Governor and regular reports on compliance and assurance are produced.</p>	<p>Deputy Governor</p>	<p>On going</p>
<p>4. Ministers should respect the roles and responsibilities of Chief Officers as established by the Public</p>	<p>The Deputy Governor held an Orientation programme and briefing session for the new</p>	<p>Deputy Governor</p>	<p>Completed 2013</p>

Recommendation	Management Response	Responsibility	Date of planned implementation
Management and Finance Law.	Cabinet and Chief Officers in early June 1013 just after the election to explain the governance framework and the respective roles and responsibilities.		
5. The Deputy Governor should ensure that there is a clear lead responsibility identified for the financial function across the public service. As part of the Deputy Governor's direction on financial leadership, he should clarify the responsibility of the Financial Secretary's for providing such leadership. Should the Deputy Governor determine that legislative changes are required, he should propose such changes to the Government.	The Deputy Governor disagrees with this recommendation. The responsibility for finance, financial systems and financial reporting is the Minister of Finance as set out in the Constitution, supported by the Chief Officer of Public Finance and her senior finance officers.		
6. The Government should review and determine whether there is a need for the use of executive expenses within the governance framework. The Government should clarify that, in future, all executive expenses, at a minimum, must follow the same control processes as followed with entity expenses, and there should be clarity about the respective roles of ministers and chief officers.	The Government has set up a committee to review the PMFL to be chaired by Councillor McTaggart and consisting of the Auditor General and government and private sector accountants.	Ministry of Finance and Economic Development	Committee to meet in January 2014 and the final report to be issued by 31 March 2014
7. The Government should develop a conflict of interest policy that takes into consideration application within the Cayman Islands context and which covers both members of the Legislative Assembly and civil servants. The Deputy Governor should ensure that all within core government are trained in how the policy should be implemented and ensure that the policy is enforced.	This is covered in the Public Service Code of Conduct Section 5 (2)g as contained the PSML and is attached to every civil servants employment agreement. Conflict of interest is also included in the orientation programme for all new civil servants. The Commission for Standards in Public Life Legislation covers registration of interest and	Deputy Governor Deputy Governor	Already in place Already in place First quarter of

Recommendation	Management Response	Responsibility	Date of planned implementation
	<p>conflicts of interests</p> <p>Code of Conduct for Cabinet Members will also include a section on conflicts of interest</p>	Cabinet Office	<p>2014</p> <p>First quarter of 2014</p>
<p>8. The Government should proceed with legislation to establish the framework for the Commission for Standards in Public Life to operate and enable its Constitution-mandated functions.</p>	Agreed	Deputy Governor	First quarter of 2014
<p>9. The Government should implement a governance structure for significant government transactions, such as procurement, that provides clarity and transparency about the roles of the GIC, ministers, and chief officers, and which is in keeping with past recommendations of the Office of the Auditor General.</p>	<p>A Working Group was established to develop a new framework for procurement and report to the Deputy Governor .The report was completed and has been reviewed by the Jersey Procurement Team.</p> <p>The Government agreed to the establishment of a three person Central Procurement Office. The Central Procurement Office will be responsible for:-</p> <ul style="list-style-type: none"> • establishing procurement policies and procedures, • developing and maintaining standard government procurement documentation, • procurement oversight, • carrying out some centralized procurement, • advising government entities on procurement • training of employees involved in procurement. • undertaking contract and post implementation reviews. 	Deputy Governor	Report accepted July 2013

Recommendation	Management Response	Responsibility	Date of planned implementation
	A recruitment exercise for the Director has commenced	Ministry of Finance and Economic Development	First quarter of 2014
10. The Deputy Governor should continue to address the Government's inability to meet the Public Management and Finance Law financial statement reporting requirements.	Agree, compliance with the PMFL is a part of the Chief Officers performance agreement and assessment process	Deputy Governor	On going
11. The Government should complete a review of all of its planning, budgeting and reporting requirements in the Public Management and Finance Law with view to proposing a simplified approach that focuses on results to be achieved and a capability to account for both the financial and non-financial performance of the Government as a whole and individual ministries and portfolios.	The Government has set up a committee to review the PMFL to be chaired by Councillor McTaggart and consisting of government and private sector accountants and the Auditor General.	Ministry of Finance and Economic Development	Committee to meet in January 2014 and final report to be issued by 31 March 2014
12. Members of the Legislative Assembly should be provided with an orientation program on the governance framework shortly after an election is held.	The Deputy Governor carried out orientation training for the new Ministers, MLAs and Chief Officers over 4days at the beginning of June 2013	Deputy Governor	Completed June 2013.
The Deputy Governor is committed to developing a close working relationship with Auditor General's Office to ensure that recommendations that improve the efficiency and effectiveness of government are implemented in a timely manner.			

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Complaints

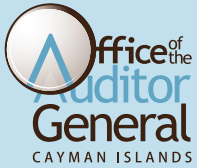
To make a complaint about one of the organisations we audit or about the OAG itself, please contact Garnet Harrison at our address, telephone or fax number or alternatively email: garnet.harrison@oag.gov.ky

Freedom of Information

For freedom of information requests please contact Garnet Harrison at our address, telephone or fax number. Or alternatively email: foi.aud@gov.ky

Media enquiries

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December 2013