



CAYMAN ISLANDS MONETARY AUTHORITY

Report to those charged with governance on the 2022 audit

October 2023

*To help the public
service spend
wisely*



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REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audits of the financial statements of the Cayman Islands Monetary Authority (the “Authority”) for the year ended 31 December 2022. International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Authority in sufficient time to enable appropriate action. The matters we are required to communicate under ISAs include:
 - Auditor’s responsibilities in relation to the audit
 - the overall scope and approach to the audit, including any expected limitations, or additional requirements
 - relationships that may bear on our independence, and the integrity and objectivity of our staff
 - expected modifications to the audit report
 - significant findings from our audit.
2. This report sets out for the consideration of those charged with governance those matters arising from the audits of the Authority’s financial statements that we consider are worthy of drawing to your attention, so that you can consider them before the financial statements are approved and signed.
3. This report has been prepared for the sole use of those charged with governance and we accept no responsibility for its use by a third party. Under the Freedom of Information Act (2021 Revision) (“FOI Act”) it is the policy of the Office of the Auditor General to release all final reports proactively through our website: www.auditorgeneral.gov.ky.

AUDITORS RESPONSIBILITIES IN RELATION TO THE AUDIT

AUDITOR’S RESPONSIBILITY UNDER INTERNATIONAL STANDARDS ON AUDITING

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

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE:

5. Management's responsibilities are detailed in the engagement letters to which the engagements were subject. The audits of the financial statements do not relieve management or those charged with governance of their responsibilities.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS:

6. While we have no responsibility to perform any audit work on other information, including forward looking statements, containing audited financial statements, we have read the other information contained in the Authority's annual report to consider whether such information is materially consistent with information appearing in the financial statements or our knowledge of the operations of the Authority. Management has submitted to us its annual report by the statutory deadline, and we reviewed them in accordance with our responsibilities under ISA 720.

CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT

7. Information on the integrity and objectivity of the Office of the Auditor General and audit staff, and the nature and scope of the audit, were outlined in the Engagement Letter presented to the Managing Director on 25 August 2022 and follows the requirements of the ISAs. We are not aware of any impairment to our independence as auditors.

AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATIONS

8. We have issued an unmodified opinion in the Auditor General's reports on the 2022 financial statements. However, our opinion was accompanied by the following emphasis of matter:

As outlined in note 16 of the financial statements, *the Public Authorities Act (2020 Revision) (PAA), Section 47 – Terms and conditions and remuneration of staff* came into effect at 1 June 2019 and required all Statutory Authorities and Government Companies to comply with its requirement to standardize salaries and benefits. At the date of this report, standardization process was still ongoing, therefore the potential impact of this requirement was not reflected in these financial statements. My opinion is not modified in respect of this matter.

9. There were no uncorrected misstatements identified by us during the audit. See Appendix 1 for all corrected misstatements recorded by the client which totaled \$29,592,902.82.

10. As part of the completion of our audit we obtained written representations from management on aspects of the accounts and judgments and estimates made. Management provided us with written representations dated 30 April 2023 in respect of our financial statement audit.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Authority's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Authority to make accounting estimates and judgments about accounting policies and financial statement disclosures.

We are not aware of any areas where the significant accounting practices are not consistent with general industry practice. In addition, we are not aware of any new or controversial accounting practices reflected in the Authority's financial statements.

12. Details of any significant findings from the audit are included in Appendix 1 along with management's response.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. Management have made significant judgments and estimates with regard to the following financial statement items:

- provision for bad debts
- revaluation, impairment and depreciation of property, plant and equipment
- amortization of intangible assets.

GOING CONCERN DOUBTS

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

SIGNIFICANT AND OTHER DEFICIENCIES IN INTERNAL CONTROL

15. We identified a number of significant deficiencies relating to internal control as part of our audit. These include:



- No formal written agreement in place as it relates to the 0.5% commission income for all currencies redeemed.
- Non-compliance with Public Authorities Act (PAA) section 47 which requires public authorities to use the same salary scale as determined by the Cayman Island's Cabinet.
- Non-compliance with the Procurement Regulations.
- Tendering for a significant contract.

Details are included in Appendix 2 along with management's response. There were no other control deficiencies reported separately to management.

FRAUD OR ILLEGAL ACTS

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

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

DISAGREEMENTS WITH MANAGEMENT

20. There were no disagreements with management that were noted during the audit

ANY OTHER SIGNIFICANT MATTERS

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

ACKNOWLEDGEMENTS

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

Yours sincerely,



Angela Cullen,
Acting Auditor General

APPENDIX 1 – SUMMARY OF ADJUSTED DIFFERENCES

Number	Date	Name	Account No	Debit	Credit
1	12/31/2022	Cash Pan - Operations	1501	58,827.39	
1	12/31/2022	Unearned Income - CIMA Transaction Fees	4102		(55,727.39)
1	12/31/2022	CIMA Transactional Fees	6201		(3,100.00)
		Being entry to book amount for cheques/wires received but not receipted December 31, 2022.			
4	12/31/2022	Prepayments - Monthly expenses	1741	12,954.76	
4	12/31/2022	WIP - Fixed Assets	2201		(12,954.76)
		Being entry to book WIP transfer to prepayments monthly.			
5	12/31/2022	Stocks - Bullion - Currency Reserve	1201		(1,070,051.43)
5	12/31/2022	Stocks - Bullion - Currency Reserve	1201	1,081,175.16	
5	12/31/2022	Bullion Revaluation	6501		(34,798.83)
5	12/31/2022	Bullion Revaluation	6501	34,798.83	
5	12/31/2022	Circulating Coin Sets Sales	6511	439.02	
5	12/31/2022	Numismatic Royalties	6512	4,216.67	
5	12/31/2022	Numismatic Coin Sales	6513	57,211.67	
5	12/31/2022	Numismatic Gain	6515		(1,422.76)
5	12/31/2022	Numismatic Cost of Sales - Numismatic Coins	7161	1,070,051.43	
5	12/31/2022	Numismatic Cost of Sales - Numismatic Coins	7161		(1,046,376.33)
5	12/31/2022	Numismatic Cost of Sales - Numismatic Coins	7161	71,568.33	
5	12/31/2022	Numismatic Cost of Sales - Numismatic Coins	7161		(61,867.36)
5	12/31/2022	Numismatic Cost of Sales - Numismatic Coins	7161		(33,376.07)
5	12/31/2022	Numismatic Issue Expense	7162		(71,568.33)
		Being entry to book numismatic stock as at December 31, 2022.			
6	12/31/2022	Accounts Receivables - Fund Director Fees Income	1644		(9,395.64)
6	12/31/2022	Accounts Receivables - Fund Director Fees Income	1644		(1,132.28)
6	12/31/2022	Accounts Receivables - Fund Director Fees Income	1644		(11,313.00)
6	12/31/2022	Income Deposits - Customer Overpayments	4104		(1,099.54)
6	12/31/2022	Accruals	4202	9,395.64	
6	12/31/2022	Accruals	4202	1,132.28	
6	12/31/2022	Accruals	4202	12,412.54	
		Being entry to book clean up merchant downgrades.			



7	12/31/2022	Accounts Payable (systems only)	4201		(11,315.00)
7	12/31/2022	Accruals	4202	11,315.00	
Being entry to reverse audit fees accrual.					
8	12/31/2022	WIP - GP CIMA Finance System	2008	2,867.50	
8	12/31/2022	Accounts Payable (systems only)	4201		(2,867.50)
Being entry to book amount for inventory management testing.					
9	12/31/2022	Accounts Payable (systems only)	4201		(1,099.74)
9	12/31/2022	Office Supplies	7541	1,099.74	
Being entry to book amount for toners.					
10	12/31/2022	Office Equipment - General	2602	5,795.00	
10	12/31/2022	Accounts Payable (systems only)	4201		(5,795.00)
Being entry to book amount for office equipment.					
11	12/31/2022	Furniture & Fixtures	2401		(880.00)
11	12/31/2022	Accum Dep'n - Furniture & Fixtures	3401	880.00	
Being entry to w/o fireproof cabinets.					
12	12/31/2022	Office Equipment - DRC Site	2601		(18,559.88)
12	12/31/2022	Accum Dep'n - Office Equipment - DRC Site	3601	18,559.88	
Being entry to book w/o office equipment.					
13	12/31/2022	Computer Software - General	2101		(4,475.00)
13	12/31/2022	Computer Software - General	2101		(4,440.00)
13	12/31/2022	Computer Software - General	2101		(5,478.25)
13	12/31/2022	Accum Amort - Computer Software - General	3101	4,475.00	
13	12/31/2022	Accum Amort - Computer Software - General	3101	4,440.01	
13	12/31/2022	Accum Amort - Computer Software - General	3101	5,478.24	
Being entry to book write-off for computer software.					
14	12/31/2022	Post Retirement Benefit Health Care - Liability	4281	3,095,000.00	
14	12/31/2022	Post Retirement Benefit Health Care - Liability	4281	15,000.00	
14	12/31/2022	Post Retirement Benefit Health Care	7013		(15,000.00)
14	12/31/2022	Remeasurement of HC Valuation	9002		(3,095,000.00)

Being entry to book healthcare cost based on IAS 19 valuation report.

15	12/31/2022	Employee entitlements - Annual Leave Provision	4245	5,249.54	
15	12/31/2022	Leave pay	7003		(5,249.54)

Being entry to reduce accrual for 2022 leave carried over to 2023.

16	12/31/2022	Accruals	4202		(4,115.69)
16	12/31/2022	Accruals	4202		(2,927.84)
16	12/31/2022	Accruals	4202		(2,543.41)
16	12/31/2022	Accommodation CAMS charges and Running costs	7061	4,115.69	
16	12/31/2022	Accommodation CAMS charges and Running costs	7061	2,927.84	
16	12/31/2022	Accommodation CAMS charges and Running costs	7061	2,543.41	

Being entry to book accrual of CAM charges.

17	12/31/2022	Allowance for Cash Equivalents	1646	140.80	
17	12/31/2022	Allowance for Cash Equivalents	1646	0.35	
17	12/31/2022	Provision Expense IFRS 9	7763	2,246.72	
17	12/31/2022	Allowance for Investments (Income)/ Loss	9003		(2,387.87)

Being entry to book IFRS 9 provision expense (P&L) 2022.

18	12/31/2022	Defined Benefit Pension - Asset	1651		(19,000.00)
18	12/31/2022	Defined Benefit Pension - Asset	1651	2,814,000.00	
18	12/31/2022	Defined Benefit Pension - Asset	1651	153,000.00	
18	12/31/2022	Defined Benefit Pension - Liability	4271	19,000.00	
18	12/31/2022	Movement in Defined Benefit Pension	7041		(153,000.00)
18	12/31/2022	Remeasurement of Pension Valuation	9001		(2,814,000.00)

2022 December year end defined benefit pension.

19	12/31/2022	Right-of-Use Asset	1750	638,485.00	
19	12/31/2022	Right-of-Use Asset	1750	331,677.00	
19	12/31/2022	Right-of-Use Asset	1750		(2,126,504.00)
19	12/31/2022	Lease Liability – Non-Current	4291		(638,486.00)
19	12/31/2022	Lease Liability – Non-Current	4291		(401,544.00)
19	12/31/2022	Lease Liability – Non-Current	4291	2,332,009.00	
19	12/31/2022	Accommodation CAMS charges and Running costs	7061		(212,107.00)
19	12/31/2022	Rental - Office and Storage	7091		(1,800,872.00)
19	12/31/2022	Business Continuity expenses	7581		(319,030.00)
19	12/31/2022	Depreciation - Right-of-Use Asset (ROUA)	8291		(331,676.00)

19	12/31/2022	Depreciation - Right-of-Use Asset (ROUA)	8291	2,126,504.00	
19	12/31/2022	Interest Expense - Lease Liability	8391	401,544.00	
Being entry to record IFRS 16 adjustment.					
20	12/31/2022	Accrued Interest - Other Investments - Currency Reserve	1303		(96,972.28)
20	12/31/2022	Interest Income - Schroders Portfolio - Currency Reserve	6012	96,972.28	
Being entry to book adjustment for over accrual of interest receivable.					
21	12/31/2022	Lease Liability - Current	4251	49,206.00	
21	12/31/2022	Lease Liability – Non-Current	4291		(49,206.00)
Being entry to reclassify lease liability between current and non-current liability.					
22	12/31/2022	Accruals	4202		(22,071.67)
22	12/31/2022	Professional and Consultancy Services	7081	22,071.67	
Being entry to book accrual for professional consultancy fees.					
23	12/31/2022	General Reserve	5101		(1,312,354.61)
23	12/31/2022	Capital Expenditures Reserve	5121	1,312,354.61	
Being entry to book amounts to capital expenditure reserve.					
24	12/31/2022	General Reserve	5101		(4,989,084.95)
24	12/31/2022	Current Earnings	5141	4,989,084.95	
Being entry to book net income allocation.					
25	12/31/2022	Capital Expenditures Reserve	5121		(8,710,675.87)
25	12/31/2022	Current Earnings	5141	8,710,675.87	
Being entry to book net income allocation.					
				29,592,902.82	(29,592,902.82)

APPENDIX 2 - INTERNAL CONTROL MATTERS AND SIGNIFICANT FINDINGS

Observations	Risks/Implications & Recommendations	Management Response	Implementation Date
<p>1. <u>No Formal Agreement with Local Banks for Redeeming Currency</u></p> <p>The Cayman Islands Monetary Authority (CIMA) charges local banks a commission fee equivalent to 0.5% for all currencies redeemed. During the audit, we noted that there was no formal agreement in place for this long-standing arrangement with the banks.</p>	<p>Risks/Implications</p> <p>There is a risk that various amounts can be paid that vary from the required 0.5% for all currencies redeemed. This risk is heightened without a formal agreement in place. In addition, CIMA does not have a legally enforceable right to charge/collect the commission without a legally binding agreement.</p> <p>Recommendations</p> <p>Management should urgently ensure that a formal agreement is in place that clearly outlines the agreed-upon percentage of commission charged to local banks for all currencies redeemed.</p>	<p>CIMA has a Deed of Indemnity which is signed by all Financial institutions that conduct direct business with the Authority. Whilst the Deed does not speak to the commissions charged on redemptions it refers to the Cash Shipment Requisition which needs to be completed for any and all transactions including redemptions. The 0.5% commission is part of this form.</p> <p>Action</p> <p>CIMA Legal Division has reviewed the two documents stated above and is of the view that the position can be argued that the commission calculated on that form is part of the agreement.</p> <p>To strengthen CIMA’s position the Deed of Indemnity has been revised to include two additional Clauses which 1) speaks to the commission and 2) for the parties</p>	<p>To have the revised Deed of Indemnity signed by all financial institutions conducting transactions with CIMA by 14 July 2023.</p>

		to agree that the revised Deed of Indemnity wholly revokes, nullifies, supersedes, and replaces, as of the date hereof, all previous deeds of indemnity or codicils, relating to the subject matter hereof, between the Bank and CIMA.	
<p>2. <u>Non-Compliance with the Public Authorities Act (PAA)</u></p> <p>Section 47 of the Public Authorities Act (2020 Revision) (the “PAA”) came into effect on 1 June 2019. The section requires public authorities to use the same salary scale as determined by the Cabinet and requires the remuneration of employees of a public authority to be adjusted to reduce any differences between the public authorities and public service’s salary grades.</p> <p>The Portfolio of the Civil Service has completed an evaluation of the Authority’s salary grades compared to the public service salary scales. However, CIMA did not accept the results of this evaluation. As such, management did not adjust for the impact of section 47 of the PAA in the financial statements. Management has not estimated the potential impact of the evaluation, and as such, has not provided for this in the financial statements.</p>	<p>Risks/Implications</p> <p>CIMA is not yet in compliance with the Public Authorities Act (2020 Revision), section 47. As a result, the Cayman Islands Monetary Authority’s salaries continue to be out of line with the civil service pay scales.</p> <p>Recommendations</p> <p>Management should ensure that CIMA complies with section 47 of the Public Authorities Act.</p>	<p>We acknowledge that CIMA is not in Compliance based on the following: -</p> <p>On 7 June 2021, a final report was provided to CIMA by the Portfolio of Civil Service regarding the PAA Implementation Project with a view to adopting the CIG Salary Scales in the future.</p> <p>The Board of Directors concluded after careful analysis that to implement the scales would be detrimental and contrary to their fiduciary responsibilities to CIMA based on the fact that this would lead to the mass exodus of staff impacting CIMA’s ability to carry out its statutory responsibilities. CIG Salary Scale would not enable CIMA to attract or to retain persons having the best skills, knowledge, qualifications, and experience to carry out regulatory and supervisory oversight of the financial services industry. It showed</p>	<p>On-going</p>

		<p>that approximately 40% of the salaries of some employees would become ‘red circled’ with others incurring a 2% – 13% salary decrease with placement on CIG Salary Bands on contract renewal. An estimate of the loss of staff on fixed term contracts between 2021 – 2023 could have been 37 employees; with an approximate loss of 56 Caymanian, open-ended contract holders becoming ‘red circled’ with no further room for growth.</p> <p>The Board of CIMA is of the opinion that the exercise was incomplete, with no details having been provided on the working conditions and market factor analysis applied in the final job evaluation document taking into account the unique skillsets, and therefore requested this information in January 2022 for further evaluation. There has been no response forthcoming and therefore CIMA position remains as stated.</p>	
<p>3. <u>Non-compliance with Procurement Regulations – Contracts Renewals</u></p> <p>During the audit, we noted that CIMA renewed service contracts with long-existing vendors without open procurement. In some cases, CIMA justified these contract renewals based on the</p>	<p>Risks/Implications</p> <p>There is a risk that CIMA may not be obtaining value for money from the existing vendors.</p> <p>Recommendations</p>	<p>DRC Cayman Limited: There is zero risk that CIMA is not obtaining value for money using the existing vendor of DRC as there is simply no other service of this nature offered on island. Deloitte is the only vendor. Due to the nature of its remit, CIMA requires</p>	<p>December 31, 2023</p>

<p>familiarity from the long working relationship built over the years with these vendors.</p> <p>The following long-existing vendors' service contracts were renewed without testing the market: DRC Cayman Limited (\$298,999), SQL Power (\$170,000) and IEL (Security & Monitoring) (\$59,460) Ltd.</p>	<p>Management should ensure that they periodically test the market through competitive bidding. Open competition will ensure that CIMA is aware of the latest market offerings and assess if value for money is being achieved. However, in the event of a direct award business cases should be clearly documented indicating that the criteria has been met in accordance with the procurement regulations.</p>	<p>that there is no co-location of its computer equipment or Business continuity operations.</p> <p>IEL (Security & Monitoring): CIMA operates in a highly sensitive environment. Security is a key priority. There are benefits to retaining consistency in service providers, all of whom have proven to be trustworthy. All security equipment is vendor provided, installed, and serviced within the respective buildings. There would be a significant impact and risk exposure to change to a different vendor. Cost is not the only element of consideration.</p> <p>SQL Power: The SQL Power contract of \$170,000, has zero risk that CIMA is not obtaining value for money using the existing vendor of SQL Power Group as CIMA could not purchase extra user licenses from any other vendor. SQL Power Group is the only vendor that sells these.</p>	<p>December 31, 2023</p> <p>To be determined</p>
<p>4. <u>Non-compliance with the Procurement Act and the Procurement Regulations – Public</u></p>	<p>Risks/Implications</p>	<p>CIMA accepts the recommendation. The same set of servers and equipment was purchased for our production</p>	<p>To be determined</p>

<p><u>Procurement Committee's approval was not obtained.</u></p> <p>During the audit, we noted that a vendor contract in the amount of \$357,421.50 was awarded directly without following the procurement regulations and obtaining the Public Procurement Committee's (PPC) approval.</p> <p>The <i>Procurement Regulations, 2018</i>, requires that a request for a direct award with a procurement value over two hundred and fifty thousand dollars be endorsed by the Chief Officer or Chief Executive Officer, as the case may be, prior to submission for approval to the Public Procurement Committee.</p>	<p>CIMA is not in compliance with the Procurement Act in this instance. CIMA incurred costs without the appropriate approval as per the procurement regulations.</p> <p>Recommendations Management should ensure that the Cayman Islands Monetary Authority adheres to the procurement regulations. This includes requesting and receiving Public Procurement Committee approval for all vendor contracts above the threshold of two hundred and fifty thousand dollars.</p>	<p>environment at Cricket Square prior to the Procurement Act 2016 procurement requirements coming into effect. This new order for our Disaster Recovery site at Citrus Grove was required to match the previous order and we just ordered the same equipment for continuity again from the same vendor as we were confident in their reliability to meet our requirements and our deadlines. It has been proven value for money.</p>	
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