



CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Report to those charged with governance on the 2022 audit

May 2023

***To help the public service
spend wisely***

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REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 31 December 2022 financial statements of the Cayman Islands Health Services Authority (the “Health Authority” or the “Authority”). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance in sufficient time to enable appropriate action. The matters we are required to communicate under ISAs include:
 - auditors responsibilities in relation to the audit
 - the overall scope and approach to the audit, including any expected limitations, or additional requirements
 - relationships that may bear on our independence, and the integrity and objectivity of our staff
 - expected modifications to the audit report
 - significant findings from our audit
2. This report sets out for the consideration of those charged with governance those matters arising from the audit of the financial statements for 2022 that we consider are worthy of drawing to your attention, so that you can consider them.
3. This report has been prepared for the sole use of those charged with governance at the Health Authority and we accept no responsibility for its use by a third party. Under the *Freedom of Information Act (2021 Revision)* it is the policy of the Office of the Auditor General to publish all final reports proactively on 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 letter to which this engagement was subject. The audit of the financial statements does 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 will read the other information contained in the Health 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 Health Authority. We have not reviewed any other documents containing the Health Authority's audited financial statements.

CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT

7. Information on the integrity and objectivity of the Office of the Auditor General and audit staff, and the nature and scope of the audit, were outlined in the Engagement Letter sent to the Chief Executive Officer 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 auditor's report on the 2022 financial statements.
9. A total of \$63.4 million in audit adjustments was made to the financial statements. The majority of this value (\$58 million) relates to adjustments made to the defined benefit liability. See Appendix 1 for details on all of the adjustments made. There were no uncorrected misstatements.
10. As part of the completion of our audit we sought written representations from management on aspects of the accounts and judgements and estimates made. These representations were provided to us on 30 April 2023.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Health Authority's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Health 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 have changed from the previous year or are not consistent with general industry practice. In addition, we are not aware of any new or controversial accounting practices reflected in the Health Authority's financial statements.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

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

- Depreciation of Fixed Assets
- Provisions for Doubtful Debts on Receivables
- Post-Employment Health and Pension Benefit Liability

13. We were able to satisfy ourselves regarding the estimated amounts reported in the financial statements.

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 Office's ability to continue as a going concern.

DEFICIENCIES IN INTERNAL CONTROL

15. We identified a number of significant matters relating to internal controls as part of our audit. See Appendix 2 for a listing of these matters along with management's responses. Some of these matters were raised in the prior year but have not been adequately addressed.

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 Health Authority'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.

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.

17. No fraud or illegal acts came to our attention as a result of our audit.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

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

DISAGREEMENTS WITH MANAGEMENT

19. We have had no significant disagreements with management regarding the conduct of our audit and the amounts reported on the financial statements.

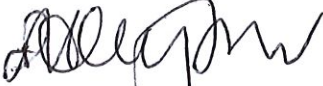
ANY OTHER SIGNIFICANT MATTERS

20. There were no other significant matters noted during the audit other than those disclosed in Appendix 2.

ACKNOWLEDGEMENTS

21. We would like to express our thanks to the staff of the Health Authority for their assistance during the audit of the 2022 financial statements.

Yours Sincerely,



Sue Winspear, CPFA
Auditor General

APPENDIX 1 – SUMMARY OF ADJUSTED DIFFERENCES

Date	Name	Account No	Debit	Credit
12/31/2022	Accruals - Other	20150	412,761.24	
12/31/2022	Overtime	50013		-412,761.24
	Client Adjusting entry to correct overtime expenses			
12/31/2022	Finished Goods	13200	779,676.79	
12/31/2022	Drugs	50701		-627,076.09
12/31/2022	Corona Virus Expenditu	54392		-152,600.70
	Client proposed adjusting entries to revise inventory balance			
12/31/2022	Defined Benefit Liabil	26100	4,853,000.00	
12/31/2022	Contribution from Gene	33003		-4,853,000.00
	To record YE pension actuarial valuation adjustments			
12/31/2022	Defined Benefit Liabil	25300	52,705,000.00	
12/31/2022	Contribution from Gene	33003		-52,705,000.00
	Clinet Adj to record post employment healthcare actauarial valuation			
12/31/2022	Long service leave and	22100		-54,187.94
12/31/2022	Leave	50014	54,187.94	
	Leave accrual client adjustment			
12/31/2022	Pensions Fund Payable	20332		-323,353.83
12/31/2022	Government Pension Con	50080	323,353.83	
	to correct prior year pension msstatement			

APPENDIX 1 – SUMMARY OF ADJUSTED DIFFERENCES – CONT'D

Date	Name	Account No	Debit	Credit
12/31/2022	Amortization of Leasehold Improvements	17143		-22,503.72
12/31/2022	Amortisation of leasehold improvements	60015	22,503.72	
	To record amortization expense for Dec 2022			
12/31/2022	Work/Construction in P	17010	169,575.96	
12/31/2022	Software Licensing Fee	54352		-169,575.96
	Reclassification of software implementation as WIP			
12/31/2022	Accruals - Other	20150		-134,197.06
12/31/2022	Corona Virus Expenditu	54392	134,197.06	
	Adjustment for other accruals			
12/31/2022	General Advances	14202	33,509.33	
12/31/2022	General Advances	14202	261,574.33	
12/31/2022	General Advances	14202		-1,018,981.38
12/31/2022	ACLS/CME Training	50230	14,522.00	
12/31/2022	Cleaning Materials	50411	8,524.94	
12/31/2022	Linen	50510	27,445.61	
12/31/2022	Food / Dietary Supplie	50602	126.92	
12/31/2022	Drugs	50701	563.52	
12/31/2022	Laboratory Supplies	50801		-261,574.33
12/31/2022	Laboratory Supplies	50801	217,667.03	
12/31/2022	Medical and Health Sup	50851	195,409.26	
12/31/2022	Prosthesis	50853	8,754.29	
12/31/2022	Dialysis Supplies	50854	6,951.37	
12/31/2022	Optical Supplies	50856	72,624.81	
12/31/2022	Optical Implants	50857	18,278.97	
12/31/2022	Hearing Aids	50859	13,319.08	
12/31/2022	Dental Supplies	50866	8,861.70	
12/31/2022	Labels	50966	1,252.50	
12/31/2022	Office Supplies - Cons	51001	3,732.49	
12/31/2022	Disaster Preparedness	51075	3,133.78	
12/31/2022	Expensed (Attractive)	51086	44,954.40	
12/31/2022	Freight and Shipping	54300	1,471.43	
12/31/2022	Maintenance - Hospital	54315	70,447.78	
12/31/2022	Maintenance - Building	54316	39,811.70	
12/31/2022	Software Licensing Fee	54352	4,856.73	
12/31/2022	Computer Hardware Main	54361	4,060.56	
12/31/2022	Public Health - Specia	54376	65,496.14	
12/31/2022	Primary Health Vaccine	54379		-33,509.33
12/31/2022	Electrical Supplies	54382	2,805.60	
12/31/2022	Corona Virus Expenditu	54392	23,788.91	
12/31/2022	Public Relations and P	54401	1,758.14	
12/31/2022	Other Training	54935	1,074.98	
12/31/2022	Audio Visual	57151	3,825.48	
12/31/2022	Medical Instruments	57152	137,825.29	
12/31/2022	Reference Books	57156	8,171.07	
12/31/2022	Lease of Medical Equip	58003	7,464.90	
	Adjustments to advances to suppliers			

APPENDIX 1 – SUMMARY OF ADJUSTED DIFFERENCES – CONT'D

Date	Name	Account No	Debit	Credit
12/31/2022	Contribution from Gene	33003	2,167,000.00	
12/31/2022	Contribution from Gene	33003	527,000.00	
12/31/2022	Movement in Health Car	50160		-2,167,000.00
12/31/2022	Past Service Pension E	74100		-527,000.00
	Post retirement healthcare and pension adjustments			
			63,462,321.58	-63,462,321.58

APPENDIX 2 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

#	Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
1. SEGREGATION OF DUTIES – CHARGE MASTER				
a.	<p>Lack of segregation of duty – Charge Master (H.S.A pricing database) -</p> <p>We noted during our audit work and upon discussion with the internal audit team that a staff member who served as the IT business analyst responsible for the charge master for the Laboratory and Radiology later transitioned to work for the Lab, hence, the staff name was not on the Data Base Administrator (DBA) list. However, the said staff member continues to assist with IT and has carried out price modification requests in Charge Master. We do appreciate the circumstances (i.e. staff shortages / absences) under which this situation occurred, however, for best practices in internal control (segregation of duties), the person who applies/drop the prices cannot be the same person making changes to the prices (or the pricing template).</p> <p>This matter was raised in the prior years but has not been addressed or adequately addressed.</p>	<p>Risks/Implications:</p> <p>Segregation of duties is an essential part of an internal control system. The lack of it could expose the Health Authority to fraudulent activities, non-compliance issues and potential material misstatements of the financial statements.</p> <p>Recommendation:</p> <p>Management should review the process and controls around the changes to Charge Master and implement the appropriate controls that enhance the integrity of the Charge Master.</p>	<p>Accepted.</p> <p><i>Whilst it is accepted that preventative control is generally more effective than detective; business practicalities sometimes preclude the implementation of preventative controls in all areas.</i></p> <p><i>As it relates to the Chargemaster, the modus operandi is to have both; avoidance of conflicting roles and responsibilities, and a robust audit and review process that detects changes and examines the legitimacy of those changes.</i></p> <p><i>The current monthly monitoring reports provide assurance that all changes are valid, and prices and modifications approved.</i></p> <p><i>Notwithstanding, in keeping with best practice, a chargemaster policy was drafted was drafted during the year as is being formalized with stakeholders for implementation in Q3 - 2023.</i></p> <p><i>This will cover the gaps in operational/management vs Board required changes to the Chargemaster including staff and consultancy access protocols.</i></p>	September 2023

#	Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
2. LACK OF SUFFICIENT PHYSICAL SECURITY AT THE INVENTORY WAREHOUSE				
a.	<p>Pharmacy – We noted during the inventory count and observation that the pharmacy warehouse is no longer equipped with the security cameras for safety and security purposes. We noted through discussions with the Pharmacy Stores Manager that although the pharmacy stores previously had cameras, they were not re-installed after the renovation of the pharmacy stores.</p> <p>Material Management - We noted the same issue with the lack of security cameras in the Material Management Stores as noted above (in Pharmacy). In addition, one of the exit doors is sometimes left unlocked allowing potential access by intruders. This is mostly the case when the inventory items requested have been set aside for pick up by the requesting department. In such instance, the exit door is left open so the requested items could be picked up even though there is no agreed time for when the items should be picked up.</p>	<p>Risks/Implications: Potential theft or abuse of inventory. This could also result in misstatements in the financial statements.</p> <p>Recommendation: Management should expedite the installation of a security camera system. They should also implement proper access and inventory pick up processes without compromising the safety and security of the inventory items and staff of the Materials Management department.</p>	<p>Accepted</p> <p><i>The cameras have been reinstalled in the Pharmacy on the main campus and Smith Road Centre Pharmacy.</i></p> <p><i>The remaining areas are currently being addressed.</i></p> <p><i>Cameras have been installed in the main stores (Materials Management) which has also been equipped with job access on both external entry doors. Other physical enhancements and business practices are currently being considered to ensure full compliance with best practice.</i></p>	September 2023

#	Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
3. REVENUE AND RECEIVABLES CONTROL CONSIDERATION				
a.	<p>Long outstanding Accounts Receivable (AR) credits (GL 12402 account)</p> <p>As at 31 December 2022, total outstanding AR credits amounted to \$10.6 million (2021: \$9.6 million). The total amount is recorded in GL# 23400 and presented as Other Liabilities in the financial statements.</p> <p>AR credits are due to the following:</p> <ul style="list-style-type: none"> • Duplicate billing to a secondary insurer; • Patient paid larger co-pay than was necessary or no co-pay was necessary; • Duplicate or incorrect charges were reversed after the patient or insurance provider had already provided payment; and • Patient paid deposit upfront and then left without being seen or cancelled appointment. <p>This matter was raised in the prior years but has not been addressed or adequately addressed.</p>	<p>Risks/Implications:</p> <p>There is a risk that other liabilities may not be accurate thereby causing the financial statements to be materially misstated and unreliable.</p> <p>Recommendation:</p> <p>Management should ensure timely reviews and application of payment to the related AR to address the significant AR credits at year end. Long outstanding AR credits amounting to \$8.8 million should be reviewed as a priority and actioned in a timely manner.</p>	<p><i>Management notes the finding and has continued to work to address this longstanding issue.</i></p>	Q4 2023
4. INFORMATION AND TECHNOLOGY				
a.	<p>No automated time and attendance system</p> <p>The Health Authority has no automated time sheet and attendance record. Time sheets are manually input to the IRIS Human Resource Management</p>	<p>Risks/Implications:</p> <p>Lack of automated time sheet and attendance system increases the possibility of fraud and manipulation and is prone to human error.</p>	<p><i>Accepted</i></p> <p><i>Rollout was delayed pending Ombudsman opinion on potential Data protection breach. Cleared to proceed in Q2 2023.</i></p>	Q1 2024

#	Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
	<p>System by the Payroll Officer from the approved manual time sheets.</p> <p>This matter was raised in the prior years but has not been addressed or adequately addressed.</p>	<p>Recommendation:</p> <p>The Health Authority should prioritize the need for a combined time recording and attendance system that seamlessly integrates into the IRIS module.</p>	<p><i>The Time and attendance system now identified will be implemented under Phase II of the VISTA Payroll/HR project in Q1 2024.</i></p> <p><i>Automated timesheets being customized for implementation under ongoing VISTA payroll project</i></p>	<p>Q1 2024</p>
5. OTHERS				
a.	<p>Inadequate monitoring of advance payments for supplies (GL 14202)</p> <p>As at 31 December 2022, general advances to suppliers over 365 days amounted to \$542 thousand (2021: \$1.2 million).</p> <p>This account was created in 2019, in response to a prior year ISA 265 Point to monitor advances made on supplies/inventory not yet received. However, the findings indicate that advances are still not being monitored effectively.</p> <p>This matter was raised in the prior years but has not been addressed or adequately addressed.</p>	<p>Risks/Implications:</p> <p>Other receivables and supplies and consumables in the financial statements may be misstated.</p> <p>Recommendation:</p> <p>Management should ensure that advances to suppliers are reviewed periodically to ensure that order received are adequately captured and reported in the financial statements.</p>	<p><i>Management notes the finding and has continued to work to address this longstanding issue through improved monitoring and business process compliance.</i></p>	<p>Q 4 2023</p>

#	Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
b.	<p>Potential waste of inventory resource from significant slow-moving items due to excessive purchases</p> <p>\$1.5 million out of the total \$2 million slow-moving inventory items relates to COVID PPE kits purchased. With the covid pandemic at its lowest point, these kits are no longer in high demand as they used to be, hence they have been set aside with adjustment to the inventory balance. As per H.S.A policy, slow moving items are still deemed usable and valuable unless they are expired or obsolete.</p>	<p>Risks/Implications: Potential waste of inventory resources.</p> <p>Recommendation: H.S.A should find alternate use for these items, resell or donate to other countries where they could be utilized, before they expire or become obsolete.</p>	<p><i>HSA notes the finding. The COVID related purchases were made during a period when much was not known about the pandemic as well as its impact on the supply chain. Active discussions are ongoing to donate same after several failed attempt of resale.</i></p>	Q 4 2023

