



MARITIME AUTHORITY OF THE CAYMAN ISLANDS

**Report to those charged with governance on the audit for the year
ended 31 December 2022**

*To help the public service
spend wisely.*

TABLE OF CONTENTS

Introduction	1
Auditor’s responsibility under International Standards on Auditing	1
Responsibilities of management and those charged with governance	2
Conduct, approach and overall scope of the audit	2
Audit report, misstatements and management representations	2
Significant findings from the audit.....	3
Significant accounting practices.....	3
Management’s judgments and accounting estimates	3
Going concern	3
Significant deficiencies in internal control	3
Fraud and illegal acts.....	4
Other matters.....	4
Acknowledgement.....	5
Appendix 1 - Summary of corrected misstatements	6
Appendix 2 – Summary of uncorrected misstatements	8
Appendix 3 - Significant control deficiencies.....	9

This page is left intentionally blank.

REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 31 December 2022 financial statements of the Maritime Authority of the Cayman Islands (the “Authority”). In rendering my audit opinion on the financial statements I have relied on the work carried out on my behalf by a public accounting firm who performed their work in accordance with International Standards on Auditing (ISAs). ISAs require that we communicate certain matters to those charged with governance of the Authority. 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;
 - modifications to the audit report; and
 - significant findings from our audit.
2. This report sets out those matters arising from the audit of the financial statements that we consider necessary to draw to your attention.
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 (2020 Revision)*, it is the policy of the Office of the Auditor General to release all final reports proactively through our website: www.auditorgeneral.gov.ky.

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.

CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT

6. The accounting firm applied a top-down, risk-based approach to planning and conducting the audit, through the application of well-reasoned professional judgment. They obtained an understanding of Authority's operations and the related risks, which drove our assessment of materiality and identification of audit risks, including significant risks, which are audit risks that require special audit considerations. They also obtained an understanding of how management controls these risks, by considering management's approach to internal controls, and determined how they will test significant account balances and classes of transactions.
7. The accounting firm's audit approach included test of controls where they were deemed we can rely on them and substantive audit approach on the rest of the areas. Where they conducted substantive testing, a sampling methodology could have been used to select items within significant transactions and balances.
8. Information on the integrity and objectivity of the Office of the Auditor General and the accounting firm's staff, and the nature and scope of the audit, were outlined in the engagement letter presented to the Board of Directors dated 15 September 2022, and follow the requirements of the ISAs. We are not aware of any impairment to our independence as auditors.

AUDIT REPORT, MISSTATEMENTS AND MANAGEMENT REPRESENTATIONS

9. We issued an unmodified auditor's report on the financial statements.
10. A summary of corrected misstatements that arose during the audit is attached in Appendix 1 and uncorrected misstatements in Appendix 2.
11. As part of the completion of our audit we sought written representations from management on aspects of the accounts and judgments and estimates made. Management has provided us with written representations in respect of our financial statement audit in a letter dated 27 September 2023.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

12. 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 were not consistent with general industry practice.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. Areas that required management to make significant judgments are detailed in the footnotes to the financial statements, including but not limited to determining leases under IFRS 16, expected credit losses under IFRS 9 and revenue recognition under IFRS 15.

GOING CONCERN

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 DEFICIENCIES IN INTERNAL CONTROL

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

1. Financial statement review process
2. Accounts receivable discrepancy between CISIS and trial balance unresolved
3. Non-compliance with the Procurement Act and Regulations
4. Absence of Audit Committee
5. Non-sequential order of revenue invoices in CISIS
6. Noncompliance of S47 of the Public Authorities Act (PAA)
7. No IT risk register

8. Performance payouts did not incorporate individual performance ratings

Further details are included in Appendix 3 along with management's response. We have however identified other internal control deficiencies we have deemed to be not significant in accordance with the ISAs, and have been reported separately to management.

FRAUD AND ILLEGAL ACTS

16. Applicable auditing standards recognize that the primary responsibility for the prevention and detection of fraud and compliance with applicable acts 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 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.
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 for the year ended 31 December 2022.

OTHER MATTERS

19. No serious difficulties were encountered in the performance of our audit.
20. We have had no disagreements with management resulting from our audit.

ACKNOWLEDGEMENT

21. We would like to express our thanks to the staff of the Maritime Authority of the Cayman Islands for their help and assistance during the audit of this year's financial statements.



Sue Winspear, CPFA
Auditor General

10 October 2023
Cayman Islands

APPENDIX 1 - SUMMARY OF CORRECTED MISSTATEMENTS

Account name or financial information line item	Debit	Credit
Retirement Liability - healthcare	2,129,000	
Other Comprehensive Income		(2,129,000)
<i>To record Forecast healthcare liability as of 31 December 2022 per Mercer report</i>		
Post-retirement healthcare - IS	410,000	
Other Comprehensive Income		(954,000)
Other Comprehensive Income	544,000	
<i>To record Forecast healthcare liability as of 31 December 2022 per Mercer report</i>		
Other Comprehensive Income	2,813,000	
Retirement Liability - healthcare		(2,813,000)
<i>To reverse original adjustment on healthcare</i>		
Other Comprehensive Income	410,000	
Post-retirement healthcare		(410,000)
<i>To reverse original adjustment on healthcare</i>		
Past Service pension	4,472	
Accrued expenses		(4,472)
<i>To record Mercer invoice #MACIAS19-22</i>		
Lease of Sites or Building - UK	39,600	
Accrued expenses		(39,600)
<i>To record revised Glide fern Property Management Limited invoice#2022000320 GBP40k</i>		
Accrued expenses	79,905	
Lease of Sites or Building - UK		(79,905)
<i>To record reversal of Glide fern Property Management Limited invoice#2022000320 GBP80,712.14</i>		
Post-retirement healthcare	7,850	
Accrued expenses		(7,850)
<i>To record Mercer invoice #MACIR2022</i>		

Other Comprehensive Income		(440,000)
Retirement Liability - pension	440,000	
<i>To record pension liability as of 31 December 2022 per Mercer report</i>		
Past Service pension liability	13,000	
Other Comprehensive Income		(440,000)
Retirement Liability	427,000	
<i>To record pension liability as of 31 December 2022 per Mercer report</i>		
Past Service pension liability		(154,000)
Other Comprehensive Income	154,000	
<i>To reverse pension liability initially recorded</i>		
Sale of Goods & Services (System Only)	230,551	
Revenue deposits		(230,551)
<i>Being reclassification of credit balances from trade receivables</i>		
Depreciation Computer Software	19,846	
Accumulated Depreciation Computer Software		(19,846)
<i>Being adjustment to correct understatement of depreciation expense</i>		
Bonus expense	210,236	
Bonus accrual		(210,236)
<i>Being adjustment to pass bonus approved by the board</i>		
Other Comprehensive Income	1,562,000	
Effect of defined benefit medical plan amendment		(1,562,000)
<i>Being adjustment to record plan amendment from OCI to P&L</i>		

APPENDIX 2 – SUMMARY OF UNCORRECTED MISSTATEMENTS

Account name or financial information line item	Debit	Credit
Bad debt allowance	19,591	
Provision for doubtful debts		(19,591)
<i>Being adjustment to correct understatement of provision for doubtful debts</i>		
Hosting & Cloud Services	15,621	
Prepayments		(15,621)
<i>Being adjustment to correct overstatement in prepayments recognized</i>		
Sales	134,218	
Trade receivables		(134,218)
<i>Being adjustment resulted from unreconciled trade debtors listing to TB</i>		

APPENDIX 3 - SIGNIFICANT CONTROL DEFICIENCIES

	Observation	Recommendation	Management Response
1.	<p>Reiterated from the 2021 audit:</p> <p>Significant number of audit adjustments and significant changes to the financial statements during the audit</p> <p>During the audit, management made many late changes to the financial statements including audit adjustments raised, arising from deficiencies in accounting records.</p> <p>The deficiencies of the accounting records we encountered during the audit included the following:</p> <ul style="list-style-type: none"> • The creditors schedule included debit balances that were not reclassified to receivables. • The receivable schedule included credit balances that were not reclassified to payables. 	<p><u>Implication</u></p> <p>Material misstatements to the financial statements</p> <p><u>Recommendation</u></p> <p>Management should implement an effective review process of the year-end financial statements to evaluate financial results and disclosures and provide the appropriate levels of scrutiny in order to prevent and detect any potential material misstatements. This review should be done on a timely basis and in advance of the Authority's submission deadline under the Public Management and Finance Act.</p>	<p>Management acknowledges and accepts this audit recommendation. We have introduced a year-end closeout review process which identifies adjustments agreed and posted to form the final draft audited financials.</p> <p>However, as in the previous year certain changes to the financial statements were beyond our control as they primarily related to employee obligation provision adjustments for the final actuarial assessments report by Mercer, independent actuarial.</p>
2.	<p>Discrepancy of \$134,218 in total receivables between CISIS report and trial balance not explained by management</p> <p>Management does not reconcile the information in the CISIS to the trial balance. The difference of CI\$134,218 between the CISIS trade receivables schedule and the general ledger balance of trade receivables was not explained by management. This audit was concluded without a resolution,</p>	<p><u>Implication</u></p> <p>Unsupported balances in the financial statements resulting in material misstatements of the financial statements.</p> <p><u>Recommendation</u></p> <p>Management should ensure that the supporting schedules of the balances in the</p>	<p>Management acknowledges and agrees with this audit point. We will implement a workable system to ensure avoidance of misstatements by migrating the Receivable section of CISIS with the AX mainframe. Anticipated to be completed by Q4 2023.</p>

	Observation	Recommendation	Management Response						
	and uncorrected misstatement recognised (see third journal in Appendix 2).	financial statements are appropriately and frequently reconciled to ensure accuracy and completeness of the balances.							
3.	<p>Non-compliance with the Procurement Act and Regulations</p> <p>Procurement Regulation 5 (2022 Revision) requires the following for any one direct award:</p> <ul style="list-style-type: none"> To be related to one of the categories under Regulation 5(1) as a justification for a direct award To be requested and approved by the appropriate authority in accordance with the thresholds prescribed by Regulation 5(3) To be published within thirty days with the details required under Regulation 5(4). To be endorsed by the Public Procurement Committee, if the procurement value exceeds \$250,000. <p>In addition, a business case is required for procurement projects exceeding \$100,000 that complies with the requirements of Regulation 3.</p> <p>Management have appointed surveyors and independent contractors by direct awards as follows:</p> <table border="1" data-bbox="262 1214 940 1344"> <thead> <tr> <th></th> <th>Number of contracts</th> <th>Total value of contracts KYD</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>42</td> <td>2,410,661</td> </tr> </tbody> </table>		Number of contracts	Total value of contracts KYD	2021	42	2,410,661	<p><u>Implication</u></p> <p>Non-compliance does not support the right at the top of the organization.</p> <p><u>Recommendation</u></p> <p>It is imperative for the management to ensure strict adherence to all stipulated requirements outlined in the Procurement Act.</p>	<p>Management will endeavour to ensure adherence to the stipulated requirements outlined in the Procurement Act.</p> <p>However, there is a ‘business case’ that supports any decisions surrounding IC procurement and though consultation with ExCom.</p> <p>Specific markets/geographical regions may be targeted to enable MACI to provide consistent growth and visibility in the market and this will be undertaken through advertisements, in the usual way. There is an ongoing advertisement on the MACI website for worldwide technical support to which any interested parties may apply and entitled ‘Expression of Interest Technical Services – Worldwide’.</p> <p>Often it is difficult to find such specialized/technical support within the industry so on many occasions IC’s may apply because they know MACI and its work or come from personal recommendation. However, even applicants that are known to MACI must apply and are considered alongside other external</p>
	Number of contracts	Total value of contracts KYD							
2021	42	2,410,661							

Observation			Recommendation	Management Response
2022	45	2,445,101		<p>applications in a fair and consistent way. Any applications coming through which match the advertisement criteria will be interviewed, assessed and considered objectively. The normal procurement process is followed.</p> <p>With a renewal the 'business case' is around performance, effectiveness in the market and that of adding value to MACI. This could be a direct renewal/award based on the value of services provided and it may often only be available from a single supplier in each region due to the limited technical expertise in that area. Due to the specific geographical locations of the IC's, it may also mean that particular IC's maintain local knowledge of clients in their geographical location thus providing a more cost effective and valuable service, not only to MACI but more importantly, to our clients.</p> <p>Therefore, once IC's have been identified and have received an initial contract, we may seek a renewal contract to maintain that level of expertise available within the region/client base. Any renewal contracts are again in consultation with ExCom and signed off by the CEO or his designate. Generally, 3-year contracts are provided to ICs with an option to increase for a further period if mutually acceptable</p>
<p>The Authority awarded contracts directly to the same contractors, once contracts expire, without public procurement. Also, the Authority did not prepare any business case or obtain any of the above approvals for direct awarding in current practice.</p>				

	Observation	Recommendation	Management Response
			<p>by both parties. This also provides MACI with the option to end an agreement, as the contract falls due for renewal, if there are issues.</p> <p>The difficulty remains that the pool of strong technical ICs within the industry is limited, so MACI endeavours, within the constraints of procurement, to secure and maintain expertise wherever possible. The provision of a timeline is difficult because our existing IC contracts expire at various dates. However, efforts will be made to comply by Q3, 2024.</p>
4.	<p>No Audit Committee in 2022</p> <p>During 2022, the Authority's board lacked an Audit Committee, which is an essential component of the governance structure. Subsequently in 2023, the Board of Directors organized an audit committee appointed its members.</p>	<p><u>Implication</u></p> <p>An audit committee is responsible for ensuring the accuracy and transparency of the Authority's financial statements and disclosures, evaluating the effectiveness of internal control and risk management systems, monitoring compliance with the entity's code of business conduct and legal requirements, assessing the independence, qualifications, and performance of external auditors, and evaluating the performance of the internal audit function. The absence of a dedicated committee to oversee these critical functions could create gaps in the governance structure of MACI.</p>	<p>Management acknowledges and agrees. The Committee has been restructured with replacement members as a result of retiring directors from the BOD.</p>

	Observation	Recommendation	Management Response
		<p><u>Recommendation</u></p> <p>Recognising that the Board has established an Audit Committee subsequently, the Board should continue to support its activities and further strengthening.</p>	
5.	<p>Missing invoice numbers in sequence related to CISIS</p> <p>We expected that revenue invoices are not in a consecutive order as expected from the CISIS system as part of its controls. We found missing numbers in the sequences of invoices during 2022, but Management said the sequences were not expected to be complete. But also, management has not made an assessment of the implication of these invoice number gaps.</p>	<p><u>Implication</u></p> <p>Unexplained gaps in invoices numbers creates room for raising fraudulent invoices which could materially misstate the financial statements. Moreover, it does create an unmitigated breakdown that could impact how similar controls (sequence controls, etc) are viewed and enforced within the organization.</p> <p><u>Recommendation</u></p> <p>Management should ensure that, for each skip of invoice number in the system, there is a proper documentation supporting the same, to ensure complete monitoring of raised revenue invoices</p>	<p>Management agrees with this audit point. We will establish a system of documentation support for skipped invoice numbers to complete sequentially. Anticipated implemented by Q4 2024.</p>
6.	<p>Noncompliance of S47 of the Public Authorities Act</p> <p>The Authority paid two employees their salaries that were below the required salary scale under the Public Authorities Act.</p>	<p><u>Implication</u></p> <p>Failure to comply with regulatory requirements has the potential to result in future back pays and creates a risk to corporate reputation.</p>	<p>Management acknowledges and agrees with this audit point. From 1 March 2023 all salaries were being paid at rates that comply with PAA 47 requirements.</p>

	Observation	Recommendation	Management Response
		<p><u>Recommendation</u></p> <p>Management should ensure that all salaries are being paid at rates that comply with PAA 47 requirements.</p>	
7.	<p>No IT Risk Register</p> <p>While enterprise-wide risks have been identified, MACI had not documented their risk registers, in terms of evaluation, analysis, mitigation and monitoring.</p> <p>Further, our review noted the absence of a risk register where all risks impacting the IT environment, including cybersecurity, are formally and periodically assessed.</p>	<p><u>Implication</u></p> <p>In the absence of a formally documented risk assessment, Management could fail to efficiently respond to IT and cyber risks affecting MACI.</p> <p><u>Recommendation</u></p> <p>An IT risk assessment should be carried out on a periodic basis to ensure the potential risks impacting MACI's operations are identified in a timely manner, with reference to widely recognized IT standards . The risk assessment should be performed to identify, evaluate, quantify, prioritize and mitigate the risks.</p> <p>The risks should be documented in a risk register that identifies the compensating controls and actions required by Management to address any residual risk.</p>	<p>Management plans an IT risk assessment in Q3 2024 and will incorporate the IT risks into the enterprise-wide risks register.</p>
8.	<p>Performance payouts did not incorporate individual performance ratings</p> <p>MACI introduced an employee performance programme with a component that incorporates a weight from the annual</p>	<p><u>Implication</u></p> <p>Non-compliance does not support the right tone being set for the organization.</p>	<p>Management will endeavour to comply with the terms of the Programme or seek Cabinet's agreement if otherwise. Timeline is by end of 2nd Quarter 2024.</p>

	Observation	Recommendation	Management Response
	<p>employee performance ratings. The programme was approved by the Cabinet pursuant to Public Authorities Act 48(4), which says that “a public authority shall not introduce a bonus or performance payment scheme for staff of the public authority unless the public authority is permitted to do so by the Cabinet.”</p> <p>However, in paying out to employees in August 2023 for the financial results in 2022, MACI did not incorporate these ratings and instead applied a uniform percentage of annual salary, in calculating those payouts. As such, MACI did not fully comply with the requirements of the programme approved by Cabinet.</p>	<p>Accuracy of individual payments is compromised</p> <p>Benefits of a performance-based pay was not obtained, i.e. rewarding better performance with higher incentive</p> <p><u>Recommendation</u></p> <p>Management should comply with the terms of its programme, approved by Cabinet, for 2023.</p>	