# MARITIME AUTHORITY OF THE CAYMAN ISLANDS

**Report to those charged with governance on the audit for the year ended 31 December 2021**

**Report date: 28 September 2022**

*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 2021 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 27 January 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 29 July 2022.

## 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:

    - Financial statement review process
    - Post-retirement healthcare and pension liability review process
    - Risk management framework not finalized
    - Lack of reconciling fixed asset register

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 2021.

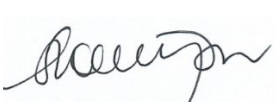
## OTHER MATTERS

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

## APPENDIX 1 - SUMMARY OF CORRECTED MISSTATEMENTS

31-Dec-21

| Account name | Debit | Credit |
|---|---|---|
| Sale of Goods & Services (Trade receivables) | 169,325 | |
| Accruals | | 169,325 |
| ***Being reclassification of trade debtors as of 31 December 2021 from accruals to trade receivables as they were wrongly booked under accruals, hence understating accruals balance*** | | |
| Client/Vessels Discounts (Expenses) | 23,278 | |
| Bad debt | | 23,278 |
| ***To reclassify actual discounts from bad debt account*** | | |
| Outputs Sold to Cabinet (Sales) | 41,367 | |
| Debt Write off | | 41,367 |
| ***To correct the sales duplicate of invoice no: 151042 Receipt No:132714*** | | |
| Sale of goods and services (Trade receivables) | 173,628 | |
| Revenue deposits (Liability) | | 173,628 |
| ***Being reclassification of unearned revenue from trade debtors*** | | |
| Other Receivables | 30,524 | |
| Membership/Subscription & Publications (Expenses) | | 30,524 |
| ***To record adjustment of transaction Oil Spill to receivables from CIG after initial record in expenses*** | | |
| Other Receivables | 1,520 | |
| Revenue deposits (Liability) | | 1,520 |
| ***To record prepayment for survey invoice #160403 amounting USD 4,750.00, while actual Invoice amounted USD2,896.90 . Balance remaining as prepaid is KYD1,519.54.*** | | |
| Prepaid insurance | 12,971 | |
| Insurance expense | 38,914 | |
| Accrued expenses | | 51,885 |
| ***To record corrected reversal lease amounts/ write -off due to the CIG Minister of Commerce, Planning & Infrastructure*** | | |

| | | |
|---|---|---|
| Accrued expenses | | 25,578 |
| Post-retirement healthcare expenses | 25,578 | |
| ***To record Mercer service fee accrual not initially accrued for (for both healthcare and pension reports)*** | | |
| Other Comprehensive Income | | 429,000 |
| Post-retirement healthcare liability | 429,000 | |
| ***To reverse initial overstated entry recorded by management as healthcare liability, with the aim of matching final Mercer balances.*** | | |
| Post-retirement healthcare (Expense) | 429,000 | |
| Other Comprehensive Income | | 918,000 |
| Post-retirement healthcare liability | 489,000 | |
| ***To record healthcare liability as of 31 December 2021 as per Mercer final signed report*** | | |
| Post-retirement healthcare liability | 47,000 | |
| Post-retirement healthcare (Expense) | | 47,000 |
| ***To correct healthcare liability journal #7 provided by management for the benefit payments made (see page 12/45 of Mercer report)*** | | |
| Other Comprehensive Income | | 343,000 |
| Retirement Pension Liability | 343,000 | |
| ***To reverse initial overstated entry recorded by management on pension liability, with the aim of matching final signed Mercer report.*** | | |
| Past Service pension liability (Expense) | 172,000 | |
| Other Comprehensive Income | | 2,257,000 |
| Retirement Pension Liability | 2,085,000 | |
| ***To record pension liability as of 31 December 2021 per final signed Mercer report.*** | | |
| Computer Software (Asset) | 41,438 | |
| Accrued expenses | | 6,485 |
| Software & Licensing expense | | 34,953 |
| ***To adjust for asset initially recorded in expenses and accruals as of 31 December 2021*** | | |
| Dividend Declared | 322,161 | |
| Dividend Payable | | 322,161 |
| ***Dividend declaration*** | | |
| Other Comprehensive Income | 1,237,000 | |
| Retirement Pension Liability | | 1,237,000 |

***To record pension liability as at 31 December 2021 to reflect final signed Mercer report after changes in estimate Inputs.***

| | | |
|---|---|---|
| Sale of goods and services (Trade receivables) | 81,342 | |
| Provision for doubtful debts | | 81,342 |

***Being reclassification of bad debts amount that was recorded in receivables instead of provision for doubtful debts.***

| | | |
|---|---|---|
| **Total CI$** | **6,193,046** | **6,193,046** |

## APPENDIX 2 – SUMMARY OF UNCORRECTED MISSTATEMENTS

31-Dec-21

| **Account name** | **Debit** | **Credit** |
|---|---|---|
| Allowance for Doubtful Debts (Expense) | 11,593 | |
| Provision for Doubtful Debts | | 11,593 |
| ***Being additional ECL provision after trade receivables have accommodated all adjustments.*** | | |
| | | |
| Outputs sold to cabinet | 23,615 | |
| Trade debtors | | 23,615 |
| ***To correct outputs sold to cabinet in the year*** | | |
| | | |
| Outputs sold to cabinet | 62,077 | |
| Trade debtors | | 62,077 |
| ***To correct outputs sold to cabinet in the year*** | | |
| | | |
| Intangible asset | 41,367 | |
| Computer equipment | | 41,367 |
| ***To correct classification of intangible asset in the financial statements*** | | |

## APPENDIX 3 - SIGNIFICANT CONTROL DEFICIENCIES

| | Observation | Recommendation | Management Response |
|---|---|---|---|
| 1. | **Reiterated from prior year:**<br><br>***Financial statement review process***<br><br>During the audit, many late changes were made to the financial statements by management including audit adjustments raised, this indicates that the review of the year-end financial statements is not sufficiently performed.<br><br>The balance sheet included accounts such as trade and other payables and trade and other receivables are recorded at gross balances rather than at net resulting to understatement of either of the accounts. For example, within trade and other payables schedules, debtors' balances were included resulting to understatement of trade and other payables balances and vice versa.<br><br>Further, several differences were noted when attempting to reconcile the general ledger to the trial balance. | ***Implication***<br><br>The correctness and accuracy of the year-end financial statements are the responsibility of the directors and without having the necessary review process in place, the risk of material misstatement may occur.<br><br>***Recommendation***<br><br>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. | Management acknowledges and accepts this audit recommendation. We have introduced a year-end closeout review process which identified adjustments which were agreed and posted to form the final draft audited financials. However, 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.<br><br>While we are content that the Trial balance and the General ledgers are in sync. However, our reliance on CISIS, an independent accounting system which generates detailed reports of the TB and GLs have been found to produce differences. |

| | Observation | Recommendation | Management Response |
|---|---|---|---|
| | | | Management has plans to migrate the CISIS system with the AX, main accounting system before end of 2022. This will produce real-time data, rather than depending on weekly uploads from CISIS to AX. |
| 2. | **<u>Changes to the actuarial inputs</u>**<br><br>It was noted that in the current year, the Authority decided to alter the actuarial inputs from prior year for post healthcare and after further discussions, the authority reverted to the norm inputs (ones used in prior year). This reflected management's insufficiency in taking various implications into consideration prior to making the initial decision. | ***<u>Implication</u>***<br><br>The initial change in prior year inputs could have resulted to various material legal impacts that could have affected the Authority.<br><br>***<u>Recommendation</u>***<br><br>Management should ensure that, for any critical decisions involving changes in data inputs for a significant estimate such as health care obligation, all relevant considerations are taken into account ad engage experts to advise them such as legal counsel to assess how the changes would impact the Authority in general. | Management accepts this recommendation and will adopt the 'four eyes principle' with respect to the data inputs. |
| 3. | **<u>Post- pension retirement review process</u>**<br><br>Errors of data inputs were noted in the original draft report received from Mercer for the pension obligation which resulted to a change of pension position from a net asset to a net liability obligation | ***<u>Implications</u>***<br><br>Insufficient review of post pension actuarial reports could result to material misstatements in the financial statements. | Management accepts this recommendation and will adopt the 'four eyes principle' with respect to the data inputs. |

| | Observation | Recommendation | Management Response |
|---|---|---|---|
| | on the final report received. The initial report disclosed a fair value of net asset value of CI$70,000. We were provided the final report towards the end of the audit which showed a net liability of CI$1,167. The net liability from the final report was eventually reported in the financial statements.<br><br>Management is responsible for reviewing the actuarial inputs to ensure these are appropriate and correct. | ***Recommendation***<br><br>Management should ensure sufficient review of both, data inputs and Mercer reports are done to evade material misstatements in the financial statements. | |
| 4. | **Reiterated from prior year:**<br><br>***Risk management framework not finalized***<br><br>The Authority operates in several jurisdictions, uses several currencies and is required to comply with several acts and regulations. Based on the nature of the Authority, its business is exposed to a number of of risks. In the prior year, we have reported this deficiency. This year, while this has already been drafted, it has not yet been finalized and implemented. | ***Implication***<br><br>Without an appropriately structured risk management mechanism in place, the potential for losses and disruptions significantly increases for the Authority.<br><br>***Recommendation***<br><br>The Authority should finalise its risk assessment scheme. Having a plan in place can help in assessing the probability of an event and the resulting impact to the Authority and proactively managing how those risks can be mitigated. | Management acknowledges and agrees with this audit recommendation. Deloitte was engaged to perform the risk assessment and has issued a draft report. This report will be presented to the Board of Directors for approval in August 2022. |
| 5. | **Output revenues from the Cayman Islands Government (Amounts in CI$ '000)** | ***Implication*** | Management acknowledges and accepts this audit recommendation. Whilst invoices |

| | Observation | Recommendation | Management Response |
|---|---|---|---|
| | Our review of purchase agreement between the Authority and the Cayman Islands Government showed that Authority does not adequately monitor its activities to ensure the billed services stay within the budgetary limits. The set limits in the agreement are based on appropriation laws, hence improper monitoring of what has been charged to the Cabinet could potentially result to breach of legislated budgetary limits at the end of the budget period.<br><br>Surpluses in budgetary limits could not be transferred to other budgetary lines without approvals required by the PMFA. | Improper monitoring of sales made to the Cabinet exceeding the set budget by the Parliament could potentially lead to breach of the appropriation laws.<br><br>***Recommendation***<br><br>Management should ensure a proper monitoring process is in place to ensure that either projected service levels by the end of the budget period, or adjustments are made in time and approved in accordance with PMFA. | are based on actual time spent. The current practice is to write-off excessive amounts considered uncollectible because of additional time spent in carrying out the tasks. |