



MINISTRY OF BORDER CONTROL AND LABOUR

**Report to those charged with governance on the 2021 Financial
Statements audit**

9 May 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 Ministry of Border Control and Labour (MBCL or Ministry). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the MBCL 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 audit of the financial statements for 2021 that we consider are worthy of drawing 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 (2021 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 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 Ministry's annual report to consider whether such information is materially inconsistent with information appearing in the financial statements or our knowledge of the operations of the Ministry of Border Control and Labour.

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 Chief Officer dated 30 August 2021 and follow 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 issued an unqualified opinion with an emphasis of matter paragraph in the Auditor General's report on the 2021 financial statements.
9. A summary of audit adjustments made to the financial statements is attached in Appendix 1. The total gross adjustments made amounted to \$3.8 million (comprised audit adjustments of \$914 thousand and client adjustments of \$2.9 million) and resulted to net adjustments to the Net Worth of \$1.4 million. Appendix 2 summarizes those 2021 uncorrected misstatements identified by us during the audit that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
10. As part of the completion of our audit we sought written representations from management on aspects of the accounts and judgments and estimates made and management has provided us with written representations dated 20 April 2022 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 Ministry's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Ministry 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 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 Ministry's financial statements.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

12. The matters below required management to make significant judgments and significant estimates to prepare financial statements in accordance with International Public Sector Accounting Standards (IPSAS).
13. At 31 December 2021, provisions for legal cases and other liabilities were recognized in the statement of financial position totaling \$100,000 (2020: \$1,253,812). Of the total prior year balance, \$610,279 related to a legal case against the Ministry that was settled during the year and the remaining balance of \$643,533 relating to Police was transferred to Office of the Commissioner of Police. Contingent liability cases (not part of the balance recognised) totaled \$40,500 (2020: \$383,000) and relate to legal disputes that have not satisfied the recognition criteria, but the likelihood of adverse outcomes was greater than remote. Provisions are recognised and contingent liabilities are disclosed in the financial statements and reviewed on a continuous basis and adjusted as necessary, when more updated information indicates a change in estimate. Based on our testing, these management judgments and accounting estimates comply with the principles set forth in IPSAS.
14. Usually, government entities do not provide for bad debt for accounts receivable owed by related parties within the public sector. In its 2021 financial statements, Management continued to provide in full for invoices worth \$850,000 (2020: \$850,000) receivable from Cayman Airways. This amount was accrued over the period starting from July 2014 to December 2019. It is therefore management's belief that this amount is doubtful given that it has been long overdue and there is no indication that Cayman Airways will pay this amount in the foreseeable future.

GOING CONCERN DOUBTS

15. 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 Ministry's ability to continue as a going concern.

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

16. We considered internal controls for the purposes of designing our further audit procedures. While as auditors we do not to express an opinion on their operating effectiveness, we are required to report to those charged with governance significant deficiencies in internal control. We identified a number of significant matters relating to internal controls as part of our audit. See Appendix 3 for details along with management's response.

FRAUD OR ILLEGAL ACTS

17. 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 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.
18. 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.
19. No fraud or illegal acts came to our attention as a result of our audit.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

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

DISAGREEMENTS WITH MANAGEMENT

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

ANY OTHER SIGNIFICANT MATTERS

22. Section 11(5) of the Public Management and Finance Act (“PMFA”) states that “Where an exceptional circumstance has occurred during a financial year, the Cabinet may authorise executive financial transactions for which no appropriation exists if — (a) the executive financial transactions directly relate to, and attempt to remedy the effects of, the exceptional circumstance; and (b) the total amount authorised is no more than five per cent of budgeted executive revenue for the financial year”. The Ministry received supplementary appropriations of \$400,000 during the year to cover costs of the continued development of the Cayman Islands Regiment. The appropriations were approved by Cabinet under section 11(5) of the PMFA. As at the date of Auditor General’s report, the Supplementary Appropriation Bill has not been passed into Act by the Parliament by 31 March 2022 as required by PMFA.

ACKNOWLEDGEMENTS

23. We would like to express our thanks to the staff of the Ministry of Border Control and Labour for their help and assistance during the audit of 31 December 2021 financial statements.

Yours sincerely,



Sue Winspear, CPFA
Auditor General

APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS

Audit Adjustments:

| Date | Name | Account No | Debit | Credit |
|---|---|------------|---------|---------|
| 31/12/2021 | Provision for Doubtful Debts (T | 12501 | 62,755 | |
| 31/12/2021 | Doubtful Debt Expense | 58505 | | 62,755 |
| <i>To adjust provisions for bad debt at 31 Dec 2021.</i> | | | | |
| 31/12/2021 | Depreciation Computer Software | 60010 | 90,561 | |
| 31/12/2021 | Depreciation Computer Hardware | 60009 | | 90,561 |
| <i>To correct booking of amortization expense for Computer Software to proper account as at 31 December 2021.</i> | | | | |
| 31/12/2021 | Vehicles | 17070 | 59,550 | |
| 31/12/2021 | Depreciation Vehicles | 60005 | 993 | |
| 31/12/2021 | Fixed Assets Mass Additions Cle | 17020 | | 59,550 |
| 31/12/2021 | Accumulated Depreciation Vehicle | 17075 | | 993 |
| <i>To capitalize vehicles placed in service during the year.</i> | | | | |
| 31/12/2021 | Gains/Losses on Revaluation of Fixed Assets | 59007 | 80,825 | |
| 31/12/2021 | Accumulated Depreciation Building | 17035 | 834 | |
| 31/12/2021 | Accumulated Depreciation Water | 17055 | 55,726 | |
| 31/12/2021 | Water Reticulation and Sewerage | 17050 | | 101,320 |
| 31/12/2021 | Depreciation Buildings | 60001 | | 25,933 |
| 31/12/2021 | Depreciation Water Reticulation | 60003 | | 10,132 |
| <i>To reverse duplicate booking of Immigration groundworks previously recorded in GL 17050.</i> | | | | |
| 31/12/2021 | Asset Revaluation Reserve - Adjustment | 31003 | 301,971 | |
| 31/12/2021 | Gains/Losses on Revaluation of Fixed Assets | 59007 | | 301,971 |
| <i>To charge building revaluation loss against the prior year revaluation reserve.</i> | | | | |

Audit Adjustments:

| Date | Name | Account No | Debit | Credit |
|-------------|--|-----------------------|----------------|----------------|
| 31/12/2021 | Accrued Prepayments | 12009 | 60,671 | |
| 31/12/2021 | Accumulated Depreciation Computer | 17115 | 26,772 | |
| 31/12/2021 | Computer Software | 17120 | 19,292 | |
| 31/12/2021 | Expensed (Attractive) Assets | 51086 | 21,968 | |
| 31/12/2021 | Freight and Shipping | 54300 | 908 | |
| 31/12/2021 | Computer Software Maintenance | 54351 | 121,343 | |
| 31/12/2021 | Software Licensing Fees | 54352 | 7,286 | |
| 31/12/2021 | Depreciation Computer Software | 60010 | 2,572 | |
| 31/12/2021 | Computer Hardware | 17110 | | 200,790 |
| 31/12/2021 | Accumulated Depreciation Computer | 17125 | | 2,572 |
| 31/12/2021 | Accruals - Other | 20150 | | 19,292 |
| 31/12/2021 | Maintenance - Buildings | 54316 | | 11,386 |
| 31/12/2021 | Depreciation Computer Hardware <i>To adjust capitalization of Automated Border Control Kiosk.</i> | 60009 | | 26,772 |
| | | | 914,025 | 914,025 |

Client Adjustments:

| Date | Name | Account No | Debit | Credit |
|---|-------------------------------------|-------------------|--------------|---------------|
| 31/12/2021 | Other Receivables | 12012 | 4,851 | |
| 31/12/2021 | Software Licensing Fees | 54352 | 1,730 | |
| 31/12/2021 | Official Travel - Expense | 50224 | | 6,581 |
| <i>To reclass October credit card payment to proper account.</i> | | | | |
| 31/12/2021 | Other Receivables | 12012 | 8,638 | |
| 31/12/2021 | Software Licensing Fees | 54352 | 5,446 | |
| 31/12/2021 | Subscriptions-Journals | 57155 | 29 | |
| 31/12/2021 | Official Travel - Expense | 50224 | | 14,113 |
| <i>To reclass November credit card payment to proper account.</i> | | | | |
| 31/12/2021 | Other Receivables | 12012 | 4,864 | |
| 31/12/2021 | Training | 50229 | 7,110 | |
| 31/12/2021 | Software Licensing Fees | 54352 | 432 | |
| 31/12/2021 | Subscriptions-Journals | 57155 | 83 | |
| 31/12/2021 | Official Travel - Expense | 50224 | | 12,489 |
| <i>To reclass December credit card payment to proper account.</i> | | | | |
| 31/12/2021 | Duty Allowance | 50031 | 10,200 | |
| 31/12/2021 | Prior Period Adjustments | 32006 | 8,305 | |
| 31/12/2021 | Accrued - Salary & Wages | 22107 | | 18,505 |
| <i>To accrue unpaid Duty of CBC Porters for 2020-2021 paid in 2022.</i> | | | | |
| 31/12/2021 | Prior Period Adjustments | 32006 | 50,390 | |
| 31/12/2021 | Accruals - Other | 20150 | | 50,390 |
| <i>To correct posting of additional prior year audit fees paid in 2021.</i> | | | | |
| 31/12/2021 | Construction - In Progress Clearing | 17021 | 19,187 | |
| 31/12/2021 | Accruals - Other | 20150 | | 19,187 |
| <i>To accrue balance for completed CBC scanner project.</i> | | | | |

Client Adjustments (Continued):

| Date | Name | Account No | Debit | Credit |
|---|---|-------------------|--------------|---------------|
| 31/12/2021 | Other Receivables | 12012 | 482,740 | |
| 31/12/2021 | Accruals - Other | 20150 | | 482,740 |
| <i>To accrue 2021 outstanding invoices for Travel Cayman paid in March 2022.</i> | | | | |
| 31/12/2021 | Accumulated Depreciation Building | 17035 | 250,562 | |
| 31/12/2021 | Gains/Losses on Revaluation of Fixed Assets | 59007 | | 199,006 |
| 31/12/2021 | Depreciation Buildings | 60001 | | 9,480 |
| 31/12/2021 | Buildings | 17030 | | 42,076 |
| <i>To adjust revaluation of FSI Building as at 31 December 2021.</i> | | | | |
| 31/12/2021 | Debtor (due to other Ministries/Portfolios) | 12404 | 94,093 | |
| 31/12/2021 | Outputs Sold to Cabinet (EXCO) | 46001 | | 94,093 |
| <i>To adjust understatement of CBC outputs as at 31 December 2021.</i> | | | | |
| 31/12/2021 | Computer Software | 17120 | 23,614 | |
| 31/12/2021 | Depreciation Computer Software | 60010 | 4,723 | |
| 31/12/2021 | Accumulated Depreciation computer | 17125 | | 4,723 |
| 31/12/2021 | Professional Fees | 54256 | | 23,614 |
| <i>To correct Journal DEC2021-0404-46-GL duplicate posting of journal NOV2021-0404-331-GL and adjust the related depreciation expenses.</i> | | | | |
| 31/12/2021 | Accrued - Salary & Wages | 22107 | 142,182 | |
| 31/12/2021 | Basic Salary | 50011 | | 126,948 |
| 31/12/2021 | Government Pension Contribution | 50080 | | 7,617 |
| 31/12/2021 | Pension Contribution - PPE Employer | 50082 | | 7,617 |
| <i>To adjust estimated accrual for CBC salary regularization at 31 December 2021.</i> | | | | |

Client Adjustments (Continued):

| Date | Name | Account No | Debit | Credit |
|-------------|---|-------------------|------------------|------------------|
| 31/12/2021 | Impairment of Assets (entity) | 59008 | 966,511 | |
| 31/12/2021 | Accumulated Impairment reserve | OAG17165 | | 966,511 |
| | <i>To record impairment of Bizagi component of WORC management system.</i> | | | |
| 31/12/2021 | Construction In Progress Clearing | 17021 | 14,003 | |
| 31/12/2021 | Accruals - Other | 20150 | | 14,003 |
| | <i>To accrue final billing for the X-ray Scanner Project, amount of retention withheld.</i> | | | |
| 31/12/2021 | Surplus Repayment | 32007 | 770,941 | |
| 31/12/2021 | Surplus Payable | 23422 | | 770,941 |
| | <i>To adjust revaluation surplus at yearend.</i> | | | |
| | | | 2,870,634 | 2,870,634 |

APPENDIX 2 – SUMMARY OF UNCORRECTED MISSTATEMENTS

| Ref no | Description | Assets | Liabilities | Equity | Income | Expenses |
|-----------------------------|--|---------------|-------------|----------|----------|-----------------|
| Unrecorded - factual | | | | | | |
| 1 | To reclassify write-off of long outstanding receivables (provided with 100% allowance in PY) against allowance accounts. | 90,855 | - | - | - | (90,855) |
| | | 90,855 | - | - | - | (90,855) |
| | Understated/(Overstated) | 90,855 | - | - | - | (90,855) |

APPENDIX 3 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

| Observation | Risk/Implication and Recommendation | Management Response |
|--|--|---|
| <p>Repayment of Surpluses to the Ministry of Finance</p> <p>The Ministry has not made payments to the Ministry of Finance relating to surplus payable for the financial period/ years ended 30 June 2016, 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020 contrary to the requirements of Section 39(3) (f) of the PMFA. The payable balance at 31 December 2020 was \$23.6 million and this has increased to \$24.4 million as of 31 December 2021.</p> | <p>Risks/Implications:</p> <p>Non-compliance with Section 39(3) (f) of the PMFA.</p> <p>Recommendation:</p> <p>Management should ensure that surplus repayments are made to the Ministry of Finance in a reasonable timeframe.</p> | <p><i>That risk is highly unlikely since the funds in question is with the Treasury on Fixed deposits as confirmed by the OAG during the audit.</i></p> <p><i>Section 39(3)(f) does not place a timeline on actual hand over. This is an operational matter which is clearly disclosed.</i></p> <p><i>When the ministry pays the surplus over is a reasonable time.</i></p> |
| <p>Strategic planning for IT projects</p> <p>The Ministry capitalized a software system, Bizagi, on 1 January 2021. Bizagi cost \$1.2M, and its annual maintenance costs were \$500k.</p> <p>In March 2022, the Government, through the e-Government Unit acquired another system, Liferay, to replace Bizagi. Therefore, Bizagi's net book value of \$976k was written off as of 31 December 2021.</p> <p>The \$1.2M loss within 1 year and Bizagi's high annual maintenance costs (\$0.5M) indicate deficiencies in the Ministry's strategic/ long-term planning for IT projects.</p> | <p>Risks/Implications:</p> <p>The Ministry may incur financial loss from software write offs and impairment when systems are changed regularly.</p> <p>Recommendation:</p> <p>Management should consider the Ministry's needs over the medium- to long-term before undertaking any IT projects/ acquiring new software.</p> <p>Management should also seek to minimize annual maintenance costs for its software acquisitions.</p> | <p><i>That risk occurs with any software or hardware implementation and is endemic in most projects. It is a standard part of managing the project.</i></p> <p><i>Not sure why there is the assumption that medium and long term needs was not considered. The programme charter clearly links to a long-term strategy which is aligned to 80% of the then government manifesto. The fact that technology and options change over time is being ignored here. The Ministry reserves the right to reevaluate the options to save money based on current and ever-changing future needs. It was evaluated that it was cheaper and better to use a new option that became available to the government in February 2022. It is management's responsibility to evaluate and take advantage of opportunities that benefit the government and reduce cost when it presents itself. This is that case here.</i></p> |

| Observation | Risk/Implication and Recommendation | Management Response |
|---|--|--|
| <p>Employee leave management and succession planning</p> <p>We noted that some senior employees in the Ministry had outstanding leave days greater than the maximum annual leave entitlement of 28 days as per the Personnel Regulations (2022 Revision). The Ministry owed \$94 thousand in accrued leave pay to these five employees on 31 December 2021.</p> <p>In addition, we noted that a member of key management personnel had 136 annual leave days outstanding as of December 2021. The Ministry paid out the employee’s leave liability of \$62 thousand before year-end.</p> <p>The Ministry also paid \$355 thousand in duty allowances during the year, suggesting that many employees performed additional duties beyond their job descriptions for extended periods.</p> | <p>Risk/ Implication:</p> <p>Resources across the Civil service have been stretched thin by the Government’s response to the Covid-19 pandemic and many Civil Servants have accumulated significant annual leave balances.</p> <p>However, employees’ effectiveness may be compromised in instances where they undertake long periods of work without rest.</p> <p>In addition, succession planning may be hindered if junior employees do not get the opportunity to act up.</p> <p>Recommendation:</p> <p>Management should encourage employees to take annual leave in the period in which it is earned to boost employee productivity and succession planning.</p> | <p><i>Agreed, however, this can only be done if additional amount of the right resources is present and/or activities are reduced.</i></p> |