

MINISTRY OF TOURISM AND TRANSPORT

Report to those charged with governance on the 2022 audit

August 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 year ended 31 December 2022 financial statements of the Ministry of Tourism & Transport (the “Ministry”). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Ministry of Transport & Tourism 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 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. We have not reviewed any other documents containing the Ministry'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 presented to the Chief Officer and signed on 14th October 2022 and follow the requirements of the ISAs. We are not aware of any impairment to our independence as auditors.

AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATION

8. We issued an unmodified auditor's report on the financial statements for the year ended 31 December 2022. Within the auditor's report, we have issued an Emphasis of Matter paragraph and have highlighted an Other Matter. Paragraphs 20 and 21 contain more details on these.
9. A summary of misstatements totaling \$674k, corrected by management is attached in Appendix 1. Appendix 2 summarizes those uncorrected misstatements totaling \$75k, which were 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 obtained written representations from management on aspects of the accounts and judgments and estimates made. Management has provided us with written representations dated 30th 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 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 the previous year or are not consistent with general industry practice. 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. Management has made significant judgements and estimates with regard to the following financial statement items:

- Depreciation of Property, Plant and Equipment - \$92K
- Value of Property, Plant and Equipment - \$230K

GOING CONCERN DOUBTS

13. 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 AND OTHER DEFICIENCIES IN INTERNAL CONTROL

14. We identified a number of significant matters relating to internal controls as part of our audit. Details are included in Appendix 3, along with management's response. Significant deficiencies identified during our audit are noted in Appendix 3, along with management's response. Other internal control deficiencies are reported separately to management.

FRAUD OR ILLEGAL ACTS

15. 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 Ministry'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.

16. 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.
17. No fraud or illegal acts came to our attention as a result of our audit, except for what has been disclosed by management.

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 disagreements with management resulting from our audit.

ANY OTHER SIGNIFICANT MATTERS

Emphasis of Matter

20. As outlined in Note 23 of the financial statements, Cabinet authorized to increase the appropriation funding to the Ministry's approved budget in the amount of \$350,000 under section 11(5) of the Public Management and Finance Act (2021 Revision) ("PMFA") for exceptional circumstances. The Supplementary Appropriations Bill for the increased funding was not introduced in Parliament by 31 March 2023 as required by sections 11(6) and 12(3) of the PMFA. The audit opinion is not qualified with respect to this matter.

Other Matter

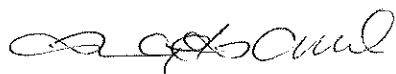
21. As outlined in note 25 of the financial statements, The Cayman Islands Department of Tourism ("CIDOT") was alerted to a potential conflict of interest issue which involved a staff member in the DOT UK Office on 24 January 2023. An investigation is being conducted by a special committee formed for this purpose and is currently ongoing. The outcome of this investigation is unknown. The audit opinion is not qualified with respect to this matter.

22. There were no other significant matters noted during the audit.

ACKNOWLEDGEMENTS

23. We would like to express our thanks to the staff of the Ministry of Transport & Tourism for their help and assistance during the audit of this year's financial statements, which enabled us to complete the audit by the statutory timeline.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Angela Cullen', written in a cursive style.

Angela Cullen, CPFA

Acting Auditor General

APPENDIX 1 – SUMMARY OF ADJUSTED DIFFERENCES

Number	Description	Assets	Liabilities	Equity	Profit and Loss
9	Total Corrected adjusting journal entries	74,761.00	222,744.00	(309,504.00)	161,781.00
		74,761.00	222,744.00	(309,504.00)	161,781.00

Number	Date	Name	Account No	Debit	Credit	Misstatement	
1	12/31/2022	Accruals - Other	20150	35,803		Factual	
1	12/31/2022	Accruals - Other	20150				
1	12/31/2022	Research and Development	55005		(35,803)		
		Transaction recorded in the incorrect period.					
2	12/31/2022	Accruals - Other	20150	29,403		Factual	
2	12/31/2022	Advertising	54211		(29,403)		
		Credit Note issued for the transaction					
3	12/31/2022	Creditor owed to Other Ministri	23410		(80,504)	Factual	
3	12/31/2022	Prior Period Adjustments	32006	80,504			
3	12/31/2022	Prior Period Adjustments	32006	31,218			
3	12/31/2022	Caribbean Touris	54224		(31,218)		
		2021 DATT expenses prior to June 2021 paid by MDAL on behalf of MT&T, CTO Membership Dues for 2021					
4	12/31/2022	Other Receivables	12012	154,262		Factual	
4	12/31/2022	Other Receivables	12012		(50,000)		
4	12/31/2022	Prior Period Adjustments	32006	36,261			
4	12/31/2022	Advertising	54211		(154,262)		
4	12/31/2022	Advertising	54211	13,739			
		KSM Credit for 2022 invoices, correction of 2021 credit					
5	12/31/2022	Programme Services	54400	9,862		Factual	
5	12/31/2022	Marketing Services	54419		(9,862)		

Number	Date	Name	Account No	Debit	Credit	Misstatement
6	12/31/2022	Accruals - Other	20150		(85,924)	
6	12/31/2022	Workers Benefits	50019	548		
6	12/31/2022	Recruitment	50071	210		
6	12/31/2022	Uniforms	50960	3,214		
6	12/31/2022	Advertising	54211	5,000		
6	12/31/2022	Advertising	54211	137		
6	12/31/2022	Collateral and Photography	54225	80		
6	12/31/2022	Local Promotion / Community Spo	54308	6,000		
6	12/31/2022	Programme Services	54400	2,667		
6	12/31/2022	Programme Services	54400	63		
6	12/31/2022	Trade and Industry Promotion	54404	1,563		
6	12/31/2022	Marketing Services	54419	550		
6	12/31/2022	Marketing Services	54419	467		
6	12/31/2022	Local Public Relations	54422	1,500		
6	12/31/2022	Special Projects	54444	2,099		
6	12/31/2022	Special Projects	54444	14,862		
6	12/31/2022	Special Projects	54444	13		
6	12/31/2022	Other Training	54935	46,950		
		Unrecorded Liabilities				Factual
7	12/31/2022	Surplus Payable	23422		(151,023)	
7	12/31/2022	Surplus Repayment	32007	151,023		
		Surplus Payable				Factual
8	12/31/2022	USD-Ministry and Porfolio Bank	10102		(29,501)	
8	12/31/2022	Accruals - Other	20150	29,501		
		Correction of Journal Posted to wrong account Credit Card payment for Minister Bryan and CO Bodden				Factual
9	12/31/2022	Accruals - Other	20150			
9	12/31/2022	Prior Period Adjustments	32006	10,498		
9	12/31/2022	Official Travel - Expense	50224		(6,717)	
9	12/31/2022	Other Dietary Supplies	50620	261		
9	12/31/2022	Office Supplies - Consumables	51001	2,457		
9	12/31/2022	Advertising	54211			
9	12/31/2022	Entity Bank Charges	54227	240		
9	12/31/2022	Professional Fees	54256	1,420		
9	12/31/2022	Hospitality	54302	345		
9	12/31/2022	Programme Services	54400		(9,862)	
9	12/31/2022	Programme Services	54400			
9	12/31/2022	Marketing Services	54419			
9	12/31/2022	Marketing Services	54419			
9	12/31/2022	Programme Support Services	54980	1,358		
9	12/31/2022	Research and Development	55005			
		Client journal entires				Factual
				674,080	(674,080)	

APPENDIX 2 – SUMMARY OF UNADJUSTED DIFFERENCES

Number	Description	Assets	Liabilities	Equity	Income	Expenses
Unrecorded - factual						
2	Difference between the PO Account	0.00	(26,611.00)	0.00	0.00	26,611.00
		0.00	(26,611.00)	0.00	0.00	26,611.00
Unrecorded - projected						
4	Prepayments Understated	18,967.00	0.00	0.00	0.00	(18,967.00)
11	Extrapolation of error	0.00	(29,697.35)	0.00	0.00	29,697.35
		18,967.00	(29,697.35)	0.00	0.00	10,730.35
	Understated/(Overstated)	18,967.00	(56,308.35)	0.00	0.00	37,341.35

Number	Date	Name	Account No	Debit	Credit	Misstatement
1	12/31/2022	Special Projects	54444	29,697		
1	12/31/2022	Accruals - Other	20150		29,697	
		Transaction recorded in the incorrect period.				Projected
2	12/31/2022	Accrued Prepayments	12009	18,967		
2	12/31/2022	KYD - Ministry and Portfolio Bank Prepayments Understated	57161		18,967	Projected
3	31/12/2022	Expense AP Actual	20160		26,611	Factual
3	31/12/2022	Miscellaneous	57161	26,611		
		Difference between the PO Account and the General Ledger				
				75,275	75,275	

APPENDIX 3 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response and implementation date
<p>1. Lack of a formal impairment review</p> <p>No matter the value of its Property, Plant and Equipment, the Ministry should have conducted a formal impairment assessment of their property, plant and equipment as required by the International Public Sector Accounting Standard (IPSAS) 21 - Impairment of non-cash-generating assets. IPSAS 21 requires entities to assess at each reporting date whether there are any indications that assets may be impaired.</p>	<p>Risk/ Implication:</p> <p>The Ministries’ assets may be impaired, and the associated impairment losses may not have been recognized.</p> <p>Recommendation:</p> <p>Management should Ministry should ensure that the Ministry complies with IPSAS 21 by conducting a formal impairment assessment of property plant and equipment at each reporting date. This will ensure that impaired assets are identified and the resulting losses recognized in the financial statements as required by the accounting standards.</p>	<p>Ministry conducts a fixed asset count each year during which the conditions of the assets are also examined. If any assets are identified as impaired we would then recognize it on our books. As of the last fixed asset count no assets were determined to be impaired.</p>
<p>2. Noncompliance with the Procurement Regulations</p> <p>No business cases prepared</p> <p>The Ministry did not comply with section 3 (3)(b) of the Procurement Regulations 2022, which requires business cases to be prepared for procurements of at least 100k. The Ministry did not prepare a business case for the procurement of goods and services from Kristin Banta Events.</p>	<p>Risk/ Implication:</p> <p>There is a risk that the Ministry cannot demonstrate how it is obtaining value for money for goods and services procured, which could lead to the wastage of public funds.</p> <p>Recommendation:</p> <p>Management should ensure that the Ministry complies with the stipulations of the Procurement Regulations. This will ensure that</p>	<p>Recommendation accepted and to be implemented immediately.</p>

Observation	Risk/Implication and Recommendation	Management Response and implementation date
<p>The goods and services procured include those relating to décor, floral arrangements, venue hire, producer's fees, audio and visual, and lighting services for the Cayman Airways Los Angeles route launch.</p> <p>Non-compliance with Direct Award Requirements</p> <p>One contract totalling \$36K was awarded via a direct award to Leaslie Leaney. Section 5(1) of the Procurement Regulations 2022 stipulates several criteria to be met for a direct award. The Ministry did not demonstrate how this direct award satisfies the requirements specified in the Procurement Regulations 2022.</p>	<p>the Ministry obtains value for money for goods and services procured.</p>	
<p>3. Noncompliance with the hospitality policy for hospitality-related expenses</p> <p>There is evidence of noncompliance with the hospitality policy. For example, there is no evidence of pre-approvals for all eight transactions reviewed by the DOT UK and DOT US offices. Furthermore, there is no evidence of a limit on the spending for hosting activities by the Ministry. Instances were noted where hospitality expenses were above the limits approved by the policy.</p>	<p>Risk/ Implication:</p> <p>There is a risk of abuse of public funds as hospitality expenses may be incurred for activities that are not appropriate or amounts of hospitality that are excessive.</p> <p>Recommendation:</p> <p>Management should ensure that there is pre-approval of all hospitality expenses within the limit that is stipulated by the policy.</p>	<p>Recommendation accepted and to be implemented immediately.</p>

Observation	Risk/Implication and Recommendation	Management Response and implementation date
<p>4. Noncompliance with CIG travel policy</p> <p>We noted two instances of non-compliance with the Cayman Islands Government (CIG) travel policy related to hotel accommodation rates. We noted that actual accommodation rates for official travel to the Bahamas were \$700 and \$580 USD respectively, while the stipulated rates in the CIG travel policy were \$477 and \$466 USD for the respective periods.</p> <p>We note that a new travel policy was issued on 28 June 2023 with revised rates.</p>	<p>Risk/ Implication:</p> <p>There is a risk that the Ministry is not obtaining value for money for travel-related expenses which could lead to the wastage of public funds.</p> <p>Recommendation:</p> <p>The Ministry should comply with the new Cayman Islands Government travel policy for all travel. Any justifications for exceptions should be clearly stated.</p>	<p>This was a last-minute trip to Bahamas for the Minister to attend a conference. Given the time and availability of hotels there was no choice left than to book a hotel that was above the policy rate at the time. Its been also noted that the new travel policy with revised rates is now in effect and these new rates would have been more in line with the rate that was chosen.</p>
<p>5. Conflict of interest declarations</p> <p>We noted that an investigation is currently being conducted by a special committee for a potential conflict of interest issue for a Department of Tourism Regional Manager, with the outcome of the investigation being unknown at the time of this audit report.</p>	<p>Risk/ Implication:</p> <p>There is a risk that non-declaration may lead to nepotism and lack of value for money for the Ministry's transactions.</p> <p>Recommendation:</p> <p>The Ministry should ensure that all conflict of interests relating to key management personnel and senior management is declared.</p>	<p>Recommendation accepted and to be implemented immediately.</p>

Observation	Risk/Implication and Recommendation	Management Response and implementation date
<p>6. Lack of updated Employee Contracts</p> <p>The <i>Personnel Regulations (2022 Revision)</i> require a valid employment agreement to be in place with each civil servant following his/her appointment at all times. The Ministry did not keep a valid employment contract for one overseas employee after the initial one expired on 31 May 2022. There was no evidence that the employee contract was renewed subsequent to this date. The employee continued employment with the Ministry while receiving full employment benefits post the contract expiry date.</p>	<p>Risk/ Implication:</p> <p>Pertinent information such as the employee’s duties, duration of the contract, compensation and benefits, employment terms etc., relating to the employee’s employment is not formally documented in the employee’s contract. In addition, there is no formal and legal agreement with the employee; therefore, the Ministry may not have legally enforceable rights pertaining to the employee’s actions.</p> <p>Recommendation:</p> <p>It is recommended that the Ministry have updated employment contracts for all employees.</p>	<p>Recommendation accepted and to be implemented immediately.</p>
<p>7. IT Policies and procedures</p> <p>The Department of Tourism (DOT) has a department-level IT function separate from the core government’s Computer Services Department (CSD) and uses a third-party managed application. However, per discussion with management, there were no written IT policies and procedures around user access administration (how access is added, removed, changed and regularly reviewed on NetSuite).</p>	<p>Risk/ Implication:</p> <p>IT risks may not be fully mitigated resulting in e.g. security gaps / unauthorized access or business disruption.</p> <p>Recommendation:</p> <p>We recommend that management:</p>	<p>Recommendation accepted and to be implemented within the next 6 months.</p>

Observation	Risk/Implication and Recommendation	Management Response and implementation date
	Document processes and controls in IT policies and procedures (including User access administration).	
<p>8. Vendor management</p> <p>The DOT operates in the Cayman Islands and overseas, and relies on the use a cloud-based software, Netsuite (owned by Oracle) to manage its transactions across the locations. Oracle hosts and manages NetSuite. Oracle retains full system access (super user/ privileged access) and is responsible for change management and all operational support.</p> <p>As part of the audit, we obtained an audit report called Service Organisation Controls report (SOC report), which reports on the operating effectiveness of Oracle’s NetSuite. This allows Oracle customers like the DOT to rely on the proper working of controls. The SOC report is an audit report issued by a professional accounting firm.</p> <p>However, the Ministry does not have a third-party risk management programme in place to monitor the performance of the vendor and the risks associated with their contract with Netsuite.</p>	<p>Risk/ Implication:</p> <p>There are potential control gaps in access and security controls that could result in unauthorized access.</p> <p>Recommendation:</p> <p>Management should develop, document and implement a vendor management program focused on ensuring that:</p> <ul style="list-style-type: none"> • Vendors are meeting expected standards of care commensurate with the levels of risks associated with their roles and responsibilities; and, • Where required, the internal IT department provides formal oversight of vendor activities. • SOC reports are reviewed periodically, and EUCs (if any) are monitored. 	<p>Recommendation accepted and to be implemented immediately. New vendor software is being explored at this time.</p>

Observation	Risk/Implication and Recommendation	Management Response and implementation date
	<ul style="list-style-type: none">Contractual arrangements protect DOT around timely breach reporting, incident management etc.	
