



THE PORT AUTHORITY OF CAYMAN ISLANDS

Report to those charged with governance on the 2021 audit

May 2022

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

REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 31 December 2021 financial statements of the Port Authority of the Cayman Islands (The “Port Authority” or “Authority”). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Port Authority in sufficient time to enable appropriate action. The matters we are required to communicate under ISAs include:
 - auditors responsibilities in relation to the audit
 - the overall scope and approach to the audit, including any expected limitations, or additional requirements
 - relationships that may bear on our independence, and the integrity and objectivity of our staff
 - expected modifications to the audit report
 - significant findings from our audit
2. This report sets out for the consideration of those charged with governance those matters arising from the audit of the financial statements for 2021 financial years that we consider are worthy of drawing to your attention, so that you can consider them before the financial statements are approved and signed.
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 Law (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.

AUDITORS RESPONSIBILITIES IN RELATION TO THE AUDIT

AUDITOR’S RESPONSIBILITY UNDER INTERNATIONAL STANDARDS ON AUDITING

4. ISAs require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters and this report includes only those matters of interest which came to our attention as a result of the performance of our audit.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

5. Management's responsibilities are detailed in the engagement letter to which this engagement was subject. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

6. While we have no responsibility to perform any audit work on other information, including forward looking statements, in documents containing audited financial statements, we shall read the other information contained in the Port Authority's annual report to consider whether such information is materially consistent with information appearing in the financial statements or our knowledge of the operations of the Port Authority. We have not reviewed any other documents containing 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 Port Director 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 have issued an unmodified opinion for 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 a reduction of \$72.0k on assets, an increase of \$53.0k on liabilities and an increase of \$20k on expenses for the 2021 financial year.

A summary of uncorrected misstatements identified by us during the audits is attached in Appendix 2. Management has determined these misstatements to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The total of these misstatements is \$65.0k

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.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Port Authority's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Port Authority to make accounting estimates and judgments about accounting policies and financial statement disclosures. Except as noted in our audit report, 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 Port Authority's financial statements.
12. Other details of any significant findings from the audit are included in Appendix 3 along with management's response.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. Management have made significant judgments and estimates with regard to the following financial statements items:
 - Depreciation of Fixed Assets
 - Provisions for Doubtful Debts on Receivables
 - Post-Employment Health Benefit Liability
 - Fair value of Property Plant and Equipment
 - Fair value of Investment Property.

GOING CONCERN DOUBTS

14. The reporting of the post-employment liability had a significant impact on the financial results of the Port Authority. This led to the Port Authority reporting a total comprehensive gain of \$11.1million after recognizing an actuarial gain due to the re-measurement of the defined benefit obligation of \$10.3million.

MATERIAL WEAKNESSES IN INTERNAL CONTROL

15. We identified a number of significant matters relating to internal controls as part of our audit. See appendix 3 for detailed listing of these matters along with management responses to these.

FRAUD OR ILLEGAL ACTS

16. Applicable auditing standards recognize that the primary responsibility for the prevention and detection of fraud and compliance with applicable laws and regulations rests with both those charged with governance of the entity and with management. It is important that management, with the oversight of those charged with governance; place a strong emphasis on fraud prevention and fraud deterrence. They are also responsible for establishing and maintaining controls pertaining to the 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.
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.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

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

DISAGREEMENTS WITH MANAGEMENT

20. We have had no serious disagreements with management resulting from our audit.

ANY OTHER SIGNIFICANT MATTERS

21. There were no other significant matters noted during the audit other than those disclosed in Appendix 3.

ACKNOWLEDGEMENTS

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

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'Sue Winspear', is placed on a light grey rectangular background.

Sue Winspear, CPFA
Auditor General

APPENDIX 1 – SUMMARY OF ADJUSTED DIFFERENCES

	Net Debit	Net Credit	Net
Assets	-	(72,344)	(72,344)
Liabilities	52,744	-	52,744
Equity	-	-	-
Revenue	-	-	-
Expenses	19,600	-	19,600
Total	72,344	(72,344)	-

Date	Name	Account No	Debit	Credit
12/31/2021	Salaries - Day Operations	01-70010-110-00	105,451	
12/31/2021	Recoverable Overtime - Night Operations	01-70012-120-00		(105,451)
<i>To reverse the effect of incorrect posting.</i>				
12/31/2021	Prepaid Expenses	01-17200-000-00		(72,344)
12/31/2021	Accounts Payable (A/P Control)	01-20100-000-00	72,344	
<i>Reversal of incorrect prepaid expenses.</i>				
12/31/2021	Wages Payable	01-20150-000-00		(18,149)
12/31/2021	Accruals	01-20200-000-00		(1,031)
12/31/2021	Salaries - Night Operations	01-70010-120-00	18,149	
12/31/2021	Pension - Night Operations	01-70020-120-00	1,031	
12/31/2021	Pension - Night Operations	01-70020-120-00	316	
12/31/2021	Accruals	03-20200-000-00		(3,161)
12/31/2021	Accruals	03-20200-000-00		(316)
12/31/2021	Salaries	03-70010-130-00	3,161	
<i>To accrue for additional wages based on the accrual schedule.</i>				
12/31/2021	Accruals	01-20200-000-00		(15,092)
12/31/2021	Salaries - Day Operations	01-70010-110-00	13,720	
12/31/2021	Pension - Day Operations	01-70020-110-00	1,372	
<i>Salary accrual based the Section 47 of the PPA</i>				
			215,544	(215,544)

APPENDIX 2 – SUMMARY OF UNADJUSTED DIFFERENCES

	Net Debit	Net Credit	Net
Assets	-	(64,627)	(64,627)
Liabilities	-	-	-
Equity	-	-	-
Revenue	-	-	-
Expenses	64,627	-	64,627
Total	64,627	(67,627)	-

Date	Name	Account No	Debit	Credit
12/31/2021	Allowance for doubtful debts	01-16500-000-00		(64,627)
12/31/2021	Bad Debts	01-74650-100-00	64,627	
<i>Proposed adjustment to increase the allowance for doubtful debts</i>				
			64,627	(64,627)

APPENDIX 3 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Audit Finding	Risk/implication	Management Response
<p>Example of non-compliance with the <i>Port Authority Act (1999 Revision) and the Port Regulations (2020 Revision)</i> – Recurring Finding.</p> <p>a) Incorrect rate applied for the calculation of Cargo Dues.</p> <p>Section 116 (4) of the <i>Port Regulations (2020 Revision)</i> – Cargo Dues states as follows:</p> <p><i>Cargo dues shall be calculated at forty cubic ft. or two thousand lbs. per ton, landed or loaded, whichever is applied by the Authority at the following rates (Per ton) —</i></p> <p>(a) Imports (other than gasoline, diesel, aviation gas, aviation jet fuel, and cargo contained in a trailer or container) \$16.65</p> <p>(b) Exports (other than gasoline, and cargo contained in a trailer or container) \$16.65</p> <p>(c) Gasoline (imports or exports) \$10.55</p> <p>(d) Exports of cargo contained in a trailer or container (other than recycled material) \$16.65</p> <p>(e) Imports of diesel, aviation gas and aviation jet fuel \$3.52</p> <p>(f) Recycled material exported for profit \$4.00.</p> <p>The OAG noted that the Port Authority applied the rate of \$3.52 for the calculation of Cargo Dues payable with respect to Propane as opposed to the rate of \$16.65. The rate of \$3.52 is applicable only to diesel, aviation gas and aviation jet fuel.</p>	<p>Risk/Implication:</p> <p>Non-compliance with <i>Port Authority Act (1999 Revision) and the Port Regulations (2020 Revision)</i>. This could lead to the Port Authority charging customers incorrect fees.</p> <p>Recommendation:</p> <p>Management should ensure that the Port is in compliance with the <i>Port Authority Act (1999 Revision)</i> and the <i>Port Regulations (2020 Revision)</i>.</p>	<p>This was rectified in June 2021 and the vendor notified.</p>
<p>Non-compliance with the requirements of <i>IAS 16 – Property, Plant and Equipment</i>.</p> <p>The OAG noted that the improvements to the Little Cayman Dock which was completed at a cost of \$69.8K in September 2020 was excluded from the land and building that were revalued by the Port Authority in current year. This omission is in contravention of IAS 16 para 29 which requires that once an entity selects an accounting policy, that policy shall be applied to an entire class of property, plant and equipment.</p>	<p>Risk/Implication:</p> <p>Non-compliance with <i>requirements of IAS 16 – Property, Plant and Equipment</i>.</p> <p>Recommendation:</p> <p>Management should ensure that the Port is in compliance with the requirements of <i>IAS 16 – Property, Plant and Equipment</i>.</p>	<p>This was an oversight during the year end process of accounting for over \$67M of revalued assets.</p>

Audit Finding	Risk/implication	Management Response
<p>Information not provided during the audit</p> <p>The OAG noted that lease agreements for the following tenants were not available and hence not received when requested during the audit:</p> <ol style="list-style-type: none"> 1. Cayman Freight & Shipping Services 2. Cayman Islands Customs & Border Control 3. Immigration Department 4. Tortuga Rum Co. 5. Thompson Shipping <p>As such, it is not clear if the lease agreements with the above tenants were executed are not.</p>	<p>Risk/Implication:</p> <p>The Port could be leasing its properties to customers without any legally binding agreements.</p> <p>Recommendation:</p> <p>Management should ensure that the Port has legally binding agreements with all customers and these should be available for review.</p>	<p>The lease for Tortuga Rum Ltd is available for audit review.</p> <p>The other leases were legacy arrangements that will be regularized shortly.</p>
<p>Non-clearing of clearing cash accounts</p> <p>The OAG noted that four out of the five cash clearing accounts showed balances at year end. Although the balances held in these accounts are minimal, these accounts should be cleared and reconciled to nil at year end.</p>	<p>Risk/Implication:</p> <p>When clearing and suspense accounts are not appropriately monitored and managed, there is an increased risk of erroneous financial results and fraudulent activity.</p> <p>Recommendation:</p> <p>Management should ensure that these accounts are cleared and reconciled to nil at year end.</p>	<p>The six (6) clearing accounts had a combined balance of \$3,711.54 as at 31 December 2021. These will be cleared in the current financial year.</p>