



PUBLIC SERVICE PENSIONS BOARD

Report to those charged with governance on the 2021 audit

28 November 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 Public Service Pensions Board (the “Board” or “PSPB”). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Board 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 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.

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 signed by management on August 30, 2021 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 Board'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 Board. We have not reviewed any other documents containing the Board'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 Executive Officer 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 have issued an unmodified auditor'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 \$3.6 million (comprised audit adjustments of \$2.2 million and client adjustments of \$1.4 million) and resulted in net adjustments to the Net Assets Available for Benefits of \$189 thousand. There were no uncorrected misstatements arising from the audit.
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 and management has provided us with written representations dated 27 July 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 Board's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Board 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 not aware of any new or controversial accounting practices reflected in the Board's financial statements.
12. Details of any significant findings from the audit are included in Appendix 2 along with management's response.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. There were no matters which required management to make significant judgments or which required significant estimates.

GOING CONCERN DOUBTS

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 Board's ability to continue as a going concern.

SIGNIFICANT AND OTHER DEFICIENCIES IN INTERNAL CONTROL

15. 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 one significant matter relating to internal controls as part of our audit. Details are included in Appendix 2 along with management's response.

FRAUD OR 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 Board'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 disagreements with management resulting from our audit.

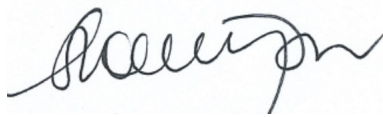
ANY OTHER SIGNIFICANT MATTERS

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

ACKNOWLEDGEMENTS

22. We would like to express our thanks to the staff of the Public Service Pensions Board 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	Grant - Ex-Gratia Uplift	4105-00	13,011.00	
31/12/2021	Other Income	6300-00		13,011.00
	<i>To reclassify Other income to proper account.</i>			
31/12/2021	Post-retirement Health Care Cost	1780-00	101,000.00	
31/12/2021	Defined Benefit Cost – Post-retirement	7448-00	33,000.00	
31/12/2021	Remeasurement of employment benefits	9000-00		134,000.00
	<i>To adjust post-retirement healthcare obligation as at 31 December 2021.</i>			
31/12/2021	Fund Surplus/Obligation	1799-00	593,000.00	
31/12/2021	Pension Expense - DB	7332-00	34,000.00	
31/12/2021	Remeasurement of employment bene	9000-00		627,000.00
	<i>To adjust Pension asset as at 31 December 2021.</i>			
31/12/2021	Net Assets Available Benefits	3000-00	133,865.02	
31/12/2021	Interest Attributable to JPP	7900-00		133,865.02
	<i>To correct prior period adjustment on Interest attributable to JPP.</i>			
31/12/2021	Net Assets Available Benefits	3000-00	164,267.28	
31/12/2021	Interest Attributable to PPP	7901-00		164,267.28
	<i>To correct prior period adjustment on Interest attributable to PPP.</i>			
31/12/2021	Lease Security Deposit	1553-00	18,506.94	
31/12/2021	Office Rental - Appleby Towers	7280-05		18,506.94
	<i>To adjust security deposit for Appleby Towers to proper account.</i>			
31/12/2021	Other Assets - Cricket Square	1760-00	37,500.00	
31/12/2021	Office Space - Cricket Square	7280-06		37,500.00
	<i>To reclassify option payment to Cricket Square Three to "Other Assets".</i>			

Audit Adjustments (continued):

Date	Name	Account No	Debit	Credit
31/12/2021	Leasehold improvements	1820-00	4,175.00	
31/12/2021	Accounts Payable <i>RE: Accrual for Invoices #2021-0559 and #2021-0560. 4th Floor - December 2021.</i>	2000-00		4,175.00
31/12/2021	Electronic Document Management System	7428-04	21,546.90	
31/12/2021	Accounts Payable <i>Re: Accrual for Inv. #20211229 - Document Scanning Service - 14 December 2021.</i>	2000-00		21,546.90
31/12/2021	Accounts Payable	2000-00	74,211.04	
31/12/2021	Contributions - ER	5000-00		37,105.52
31/12/2021	Contributions - EE <i>Re: Reversal of GJ5888. Applied to POCS Contributions for December 2021.</i>	5020-00		37,105.52
31/12/2021	Benefits Paid - PSP Commutation	8000-00	976,839.63	
31/12/2021	Accrued Liabilities - Over 60s <i>To book additional accrual for commutation and earned benefit payments of new retirees in 2021.</i>	2011-00		976,839.63
			2,204,922.81	2,204,922.81

Client Adjustments:

Date	Name	Account No	Debit	Credit
31/12/2021	Contributions - DB PSL	5040-00	333.33	
31/12/2021	Contributions Receivable - DB <i>CTF - Adjusting accrual of DB-PSL for period October to December 2021. Erroneously accrued for 4 months (September to December 2021).</i>	1530-00		333.33
31/12/2021	Contributions - DB PSL	5040-00	333.33	
31/12/2021	Contributions Receivable - DB <i>CTF - Reversal of accrual (Contributions Receivables) for Q4 2021. Already accrued in GJ5879 d'd 31st December 2021.</i>	1530-00		333.33
31/12/2021	Contributions - DB PSL	5040-00	8,833.33	
31/12/2021	Contributions Receivable - DB <i>Reversing accrual for September 2021. Already included DB-PSL: Net Q3 2021 - ANC HSA</i>	1530-00		8,833.33
31/12/2021	Contributions - DB PSL	5040-00	8,416.67	
31/12/2021	Contributions Receivable - DB <i>Reversing accrual for September 2021. Already included in Invoice #WADB-Q321</i>	1530-00		8,416.67
31/12/2021	Contributions Receivable - DB	1530-00	6,428.10	
31/12/2021	Contributions - DB PSL <i>To cancel GJ5827: Reversing Net Over/Under-Payment for 1 Jan 2020 to Sept 2021. Factored in adjustment "due to change in Rate". Booked the wrong way.</i>	5040-00		6,428.10
31/12/2021	Contributions Receivable - DB	1530-00	6,428.10	
31/12/2021	Contributions - DB PSL <i>Reversing Net Over/Under-Payment for 1 Jan 2020 to Sept 2021. Factored in adjustment "due to change in Rate".</i>	5040-00		6,428.10
31/12/2021	Contributions - DB PSL	5040-00	57,998.70	
31/12/2021	Contributions Receivable - DB <i>Reversal of revenue to be offset against Net Under-payment 2020/21.</i>	1530-00		57,998.70

Client Adjustments (continued):

Date	Name	Account No	Debit	Credit
31/12/2021	Contributions - DB PSL	5040-00	86,250.00	
31/12/2021	Contributions Receivable - DB <i>Reversal of accrual of DB PSL contributions for October to December 2021 (\$28,750 PM). Was erroneously invoiced and paid in CIAA PSL (See entry for \$115,000)</i>	1530-00		86,250.00
31/12/2021	Contributions - DB PSL	5040-00	31,730.47	
31/12/2021	Contributions Receivable - DB <i>Reversal of revenue to be offset against Net Underpayment 2020/21.</i>	1530-00		31,730.47
31/12/2021	Right-of-use Asset	1750-00	487,151.78	
31/12/2021	Current Lease Liability	2800-00		360,371.15
31/12/2021	Non-Current Lease Liability - Appleby <i>To recognize impact of IFRS 16 for Leases at 31 December 2021.</i>	2900-00		126,780.63
31/12/2021	Current Lease Liability	2800-00	69,841.70	
31/12/2021	Interest Expense - Appleby Lease Liability	6306-01	7,033.27	
31/12/2021	Office Rental - Appleby Towers <i>To correct posting of principal payment of Lease Liability and recognize interest expense as at 31st December 2021.</i>	7280-05		76,874.97
31/12/2021	Net Assets Available - Benefits	3000-02	172,333.31	
31/12/2021	Contributions - PSL <i>To reverse overstatement of transfer of PSL to Due to PPP.</i>	5030-00		172,333.31
31/12/2021	Net Assets Available - Benefits	3000-02	27,159.92	
31/12/2021	Interest Attributable to PPP <i>To correct interest income of Due to PPP.</i>	7901-00		27,159.92

Client Adjustments (continued):

Date	Name	Account No	Debit	Credit
31/12/2021	Office Supplies	7290-00	236.00	
31/12/2021	Accounts Payable <i>Re: Accrual for Inv. #2076094 and Inv. #2092581.</i>	2000-00		236.00
31/12/2021	Contributions - PSL	5030-00	115,000.00	
31/12/2021	Contributions - DB PSL <i>Re-Allocating DB Invoices for September to December 2021 from PSL to DB.</i>	5040-00		115,000.00
31/12/2021	Dietary Food Supplies	7230-00	379.50	
31/12/2021	Accounts Payable <i>Re: Accrual for Inv. #100637- Dietary Supplies - 30 December 2021</i>	2000-00		379.50
31/12/2021	Contributions - ER	5000-00	155.82	
31/12/2021	Contributions - EE	5020-00	155.82	
31/12/2021	Contributions Receivable - ER	1500-00		155.82
31/12/2021	Contributions Receivable - EE <i>RE: Adjustment due to update in Neospin - MIT.</i>	1520-00		155.82
31/12/2021	Contributions - ER	5000-00	49,087.07	
31/12/2021	Contributions - EE	5020-00	49,087.07	
31/12/2021	Contributions Receivable - ER	1500-00		49,087.07
31/12/2021	Contributions Receivable - EE <i>Re: Reversal of PoCS Accrual for December 2021.</i>	1520-00		49,087.07
31/12/2021	Other Income - IAS19	1550-01	195,715.81	
31/12/2021	Other Income <i>Re: Accrual for IAS 19 report for 2021. Invoiced 1st January 2022</i>	6300-00		195,715.81
31/12/2021	Audit Adjustments	6304-00	12,304.63	
31/12/2021	Other Income <i>Re: Adjusting over-accrual for 2020 IAS 19 Reports (posted in 2021).</i>	6300-00		12,304.63
			1,392,393.73	1,392,393.73

APPENDIX 2 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>Lack of formal risk assessment policy</p> <p>There were no formal policies and procedures for identifying and responding to risk factors during the financial year.</p> <p>However, during the year PSPB entered into a secondment arrangement with a third-party service provider to assist with the development of formal policies from which to create a systematic approach for governing the Board's risk or an Integrated Risk Management Framework. As at the end of the year, the first phase of the risk and control assessment was completed.</p>	<p>Implication:</p> <p>Whilst PSPB has taken steps to have formal policies and procedures in place, the absence of risk assessment procedures means that some controls may not be adequately designed to address those risks not identified.</p> <p>Recommendation:</p> <p>A robust risk assessment process should be put in place. It should be clearly outlined who is responsible for identification of risks, how often risk assessment is to be performed, how these are reported to those charged with governance and the process of what happens after a risk is identified such as the designing of controls to mitigate risk.</p>	<p>The Authority, with the assistance of Mercer continues to progress the development and implementation of an Integrated Risk Management Framework.</p> <p>Since engaging with Mercer in late 2021 a Board workshop was held where Mercer reviewed the primary risks affecting the Plans, and key categories to be monitored. In addition, Mercer's proposed risk metrics were discussed and consideration was given on whether they are fit for purpose.</p> <p>After the workshop Mercer rolled out a survey to the Board members related to setting targets and tolerances for the risk metrics. Mercer also began preliminary work on the required quantitative analysis.</p> <p>Mercer then reflected the survey results in a draft Integrated Risk Management (IRM) dashboard that was presented to the Board at a subsequent meeting in March 2022. From this</p>	

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
		<p>meeting Mercer was able to collect feedback from the Board on a refinement to inform quantitative analysis or other subsequent work. Mercer also introduced considerations for the Board’s continuous monitoring of the IRM dashboard and framework.</p> <p>At the September 2022 Board meeting Mercer presented an updated IRM dashboard with data from the 1 Jan 2020 funding valuation. The feedback from this meeting will be used to further finetune the dashboard for its next presentation in December 2022 at which time it will be updated with the data from the 1 Jan 2022 funding valuation.</p> <p>The Manager, Risk Support secondment with Mercer has also commenced with data gathering meetings with the PSPB, Senior Management team as well as the Chair of the Audit and Risk Committee.</p> <p>Although we continue to experience delays with implementing this program due to the COVID19 pandemic we have made great strides in the necessary foundational work required for establishing a successful integrated risk management framework in the Authority. This should address all the considerations raised in your recommendations.</p>	

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>Lack of an annual leave buy back (payout) policy</p> <p>We noted PSPB made leave buybacks totaling to \$33 thousand before year-end which contributed to the reduction in liability from \$74 thousand in 2020 to \$14 thousand as at 31st December 2021.</p> <p>However, PSPB does not have a written policy to guide the application of Leave buy backs.</p>	<p>Risk/ Implication:</p> <p>Lack of written policy may result in abuse or inconsistency in treatment.</p> <p>Recommendation:</p> <p>Management should develop a leave buy back policy for exceptional times when reimbursing leave proves necessary.</p>	<p>Management will develop a formal leave buy back policy for the Authority.</p>	
<p>Non-Tendering of Office Space Fit-Out</p> <p>Section 3 (1) of the Procurement Regulations, 2018 (the “Regulations”) stipulate that: A procurement process may be initiated by an entity only after the procurement project has been appraised and the results documented in an approved business case.</p> <p>Section 3 (3) (c) also stipulates that where a procurement project is two hundred and fifty thousand dollars or more in value –</p> <p>(i) A written business case shall be submitted in the format specified by the Public Management and</p>	<p>Risk/ Implication:</p> <p>There are risks of non-compliance with the Procurement Act and may reduce the Authority’s ability to achieve the best value for money due to lack of knowledge of potentially more competitive options.</p> <p>Recommendation:</p> <p>The Authority should adhere to the relevant tendering requirement as set forth in the Regulations. Where procurement does not go through the formal tendering process, a report should be prepared that clearly sets out the</p>	<p>The landlord, in this case the Government, initiated the move as they needed their office space for alternative purposes on an urgent basis. This could occur again and under similar circumstances we would have to move in tandem with the landlord’s timeline, as we did in this instance. This in and of itself was a compelling business case which the Board fully supported. In respect, of tendering requirements, this was not a direct procurement as the project manager, FLM obtained quotations from more than one construction company. This allowed the project manager and management the opportunity to assess cost and value for money.</p>	

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>(ii) Finance Act (2020 Revision) or in such other format as may be specified by the Director of the Central Procurement Office; A written local impact assessment shall be submitted to the Central Procurement Office and shall be appended to the business case.</p> <p>Furthermore, Section 4 of the Regulations states that: entities are required to undertake a competitive process when procuring any goods, services or works except where it can be demonstrated that the procurement meets the criteria for the direct award process set out in Regulation 5.</p> <p>During our review of the work-in progress for the new leasehold improvement of the Authority's new office space, we noted that the contract was not tendered and we did not receive appropriate evidence that the Procurement Act was strictly followed. Total budgeted cost for the new office space fit out amounted to \$367 thousand which is above the procurement threshold of \$250 thousand. In addition, no formal business case was prepared.</p> <p>We understand that the Authority was asked to vacate the Cayman Islands Government premises and due to unavoidable circumstances and with Authority's other ongoing projects and</p>	<p>rationale and justification for this, and the report should be approved at the appropriate level.</p> <p>Furthermore, management should ensure that procurement is strictly followed to obtain best value for money.</p>		

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
conflicting priorities a proper procurement process and documentation was not adhered to, however a Project Manager was hired to obtain quotes from different suppliers.			