



## **Opening Comments by the Auditor General**

**Public Accounts Committee**

**Hearing on the Performance Audit Report on the  
Management of Travel and Hospitality**

**14 January 2015**

1. Mr. Chairman, members of the Public Accounts Committee, ladies and gentlemen may I first take this opportunity to wish you all a very happy new year. I look forward to working productively with the committee over the coming year to support accountability in the use of public resources.
2. Thank you for the opportunity to provide some initial comments on my performance audit on the Management of Travel and Hospitality expenditure which was published in May 2014.
3. Travel and hospitality expenditures are incurred for a wide spectrum of activities and events that support an elected government in its delivery of its policies and programs. Some of these supporting activities include policy development, service delivery, regional and international relations, and the training and development of officials.
4. Within this context it is important that Government can undertake official travel or provide hospitality. However, due to the nature of these expenditures, they can be considered particularly difficult to manage. If not managed effectively, they could be seen as providing personal benefits to officials. Moreover, it is sometimes challenging to demonstrate that the expenditures are consistent with the organization's objectives. As a result they are usually subject to heightened public interest and increased levels of scrutiny.
5. The amount of money spent may be small in the context of an organization's total expenditures. However, each expenditure decision is important, because improper expenditures could harm the reputation of, and trust in, the entity as well as the entire public sector.
6. In the Cayman Islands, the costs associated with travel and hospitality of Government officials have received considerable public interest and criticism.
7. As a result of the increased risks around these types of expenditures, the heightened public interest, and issues that have been raised through our financial audits, and the fact that because of the poor

record keeping and information available, I have not always been able to complete the financial audits of a number of organizations in a reasonable way and report on how public money was being spent I decided to undertake this audit.

8. The purpose of this audit was to provide an assessment of how well the Cayman Islands Government managed travel and hospitality expenditure and whether due regard was paid to obtaining appropriate value for money. That is, travel and hospitality expenditures represent the economic and efficient use of funds given the nature of the activity in relation to the achievement of Government's mandate.

## **What my audit was about**

9. My audit only covered travel and hospitality expenditures by core government officials. I did not look at spending in the statutory authorities and government companies at this time. We looked at expenditures from July 2009 through to December 2012.
10. Based on the government's own records, travel and hospitality expenditures accounted for approximately \$8.6 million between 1 July 2009 and 30 June 2012. While it is small in proportion to the overall amount spent by government, it is still a very large amount of money and an amount that is subject to a lot of discretion by public servants.

## **Findings**

11. Fundamental to the effective management of these types of expenditures is the clear articulation of policies for incurring travel and hospitality expenditure supported by robust procedures and controls to ensure compliance. I found that there was an absence of well-defined policies and ineffective or absent procedures and controls. Policies that were in place were inconsistent across

government and officials were left with significant, if not complete discretion with regard to how travel and hospitality expenditures were incurred. Furthermore monitoring and reporting of these transactions by management was virtually non-existent.

12. We identified a number of examples in this report where Government had either not clearly demonstrated the value or benefit of the expenditure incurred, or where public funds had been potentially misused.
13. One of the key issues we found was that the supporting documentation for travel and hospitality expenditure was very poor, and in some cases non-existent, and the records in the accounting system unreliable. As a result we were not able to carry out all the audit procedures we had planned, limiting the scope of our audit, and our ability to provide more information to the reader on how these expenditures have been managed or quantify how much the Government mishandled or wasted during the period reviewed.
14. For example out of over 80 sample items or individual expenditures my auditors selected for review, almost half of them lacked the necessary support to determine what was being paid and in about 10% of the expenditures we reviewed, there was absolutely nothing to support the expenditures incurred.
15. Sound record keeping is fundamental to effective administration and stewardship of public resources. There is no excuse for the issues we have found and whilst it may be indicative of just poor management and administration it creates the perception at least of the misuse of public funds and increases the risk of fraud significantly.

16. Other than not being able to complete the audit because of a lack of documentation, my audit team documented some serious problems with how government spent public funds for travel and hospitality. Here are some of things that we identified
17. In respect of **Travel Advances** we found that financial officers were writing cheques for travel expenses, sometimes with no supporting documentation and understanding whether the travel occurred or not. In one department, for example, travel advances provided to one employee in the amount of \$32,000 were written off because the financial officer did not know if the employee had even traveled and apparently could not provide the supporting documentation. In that ministry, a total of \$167,000 of advances given to employees were written off because again, employees could not provide the evidence for their expenditures.
18. My auditors found approximately \$458,000 in travel and hospitality expenditures charged on **credit cards** and paid by finance officers where they did not get sufficient receipts to tell what the money was being spent on. In one case, we found a former Minister used a credit card to pay for travel and hospitality expenses for convenience and in accordance with a policy issued by government officials. However my auditors found that the minister having incurred the credit card expenditures then self-approved the payment of the credit card bill, which the Chief Financial Officer paid even though there was no evidence to demonstrate that the expenses were incurred for government business.
19. In other cases, we found individuals receiving advances for meals and other expenses while on travel and then getting the same expenses reimbursed a second time through charges on their credit cards.
20. The basic financial controls my auditors expected to find were absent.

21. Over the last five to six years, the government has had to manage with scarce resources and have had to make some very significant cuts in expenditure to balance the budget, or limit their deficits. While this was happening, our audit found that the monitoring and controls for travel and hospitality expenditures were weak and budget overruns occurred. No one in Government was effectively minding the store when it came to spending on this very discretionary area of expenditure. Of even greater concern, because of inconsistent recording in the accounts for travel spending, my auditors found that government officials didn't really know how much it was spending for public servants to travel.
22. With respect to reporting on travel and hospitality expenditures, it only takes a quick look at the government's website to know that there is very little information available about public sector spending on government travel and hospitality. We have recommended that government needs to do a better job of proactively disclosing the details around official travel. With the control environment in a poor state, we believe that this proactive disclosure may also have the effect of ensuring greater care when it comes to incurring the expenditures in the first place.
23. The report includes a number of examples where it was clear that the government did not get value for money for travel and hospitality. While much of the cause for this was a lack of government policy, we also found a lack of due diligence and reasonable efforts to ensure rules that existed at the time were being followed.

## **Conclusion**

24. In conclusion, I am pleased to say that we have had good discussions with the Deputy Governor and his team, and that he has provided a response to the recommendations. I welcome the introduction by the Government during the course of our audit of a formal travel policy, which addresses a number of the issues we have reported on, and its future extension to areas including hospitality.

25. I welcome the lead taken by the Premier and the Deputy Governor in the last year of disclosing their travel costs, and would encourage the Government to implement this in a systematic and consistent manner for all senior managers across the public service.
26. I also look forward to seeing the results of the Government Internal Audit Service's travel and expenditure audit, commissioned by the Deputy Governor to assess compliance with the Government's new travel policy.
27. However, more needs to be done to ensure that officials have a clear way forward to address the underlying problems around behaviours, controls and processes which have led to the serious findings in this report. While it is important to have a robust and comprehensive policy, ensuring that it is effectively implemented and getting assurance that it is being complied with is equally if not more important, and I could cite a number of examples where laws, policies and regulations have been put in place but without the intended outcomes due to poor implementation and non-compliance.
28. The issues we have reported on with respect to the management of travel and hospitality expenditures are indicative of the broader issues that we have found in the audits of financial statements around the effective control, management and monitoring of the use of government resources.
29. I hope that this report will provide further impetus for the management of public resources with greater diligence and in line with the public's expectations.
30. I look forward to the Government taking action in response to the findings and recommendations discussed in this report.

31. Finally I look forward to assisting the Public Accounts Committee over the course of this hearing by providing additional information and clarification where necessary.

32. Thank you.