



## **WATER AUTHORITY OF THE CAYMAN ISLANDS**

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**Report to those charged with governance on the 2024 audit**

**July 2025**

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

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# REPORT TO THOSE CHARGED WITH GOVERNANCE

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## INTRODUCTION

1. We have completed our audit of the 31 December 2024 financial statements of the Water Authority of the Cayman Islands (the “Authority”). In providing my audit opinion on the financial statements I relied on the work carried out on my behalf by a private accounting firm. The firm performed its work in accordance with International Standards on Auditing (ISAs). The ISAs require that we communicate certain matters to those charged with governance of the 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 2024 financial statements that we consider 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](http://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 that came to our attention as a result of the performance of our audit.

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#### RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

5. Management's responsibilities are detailed in the engagement letter dated 1 October 2024. The engagement letter was signed by the Office of the Auditor General, the Authority and the private accounting firm. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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#### 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 have read the other information contained in the Authority's annual report and noted that it is materially consistent with information appearing in the financial statements or our knowledge of the operations of the Authority. We have not reviewed other documents containing the Authority'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 Director and follows 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 audit report on the 31 December 2024 financial statements.
9. A summary of audit adjustments (\$30,000) made to the financial statements is attached in Appendix 1. One uncorrected material misstatement was identified, which is outlined in Appendix 2.
10. As part of the completion of our audit, we obtained written representations from management on aspects of the accounts, judgments, and estimates made. These representations were provided to us on 29 April 2025. We are not aware of any impairment to our independence as auditors, including that of the private auditing firm.

## SIGNIFICANT FINDINGS FROM THE AUDIT

### SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Authority's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
12. Generally accepted accounting principles provide for the Authority to make accounting estimates and judgments about accounting policies and financial statement disclosures. We are, however, not aware of any new or controversial accounting practices reflected in the Authority's financial statements.

### MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. Management has made judgments and estimates with regard to the following financial statement items:
  - Property, plant and equipment, including self-constructed assets.
  - Depreciation of fixed assets.
  - Accounts receivable - Expected Credit Losses.
  - Valuation of employee benefit plans

### 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 Authority's ability to continue as a going concern.

### SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

15. Significant deficiencies identified during our audit are noted in Appendix 3, 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 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. Management are also responsible for establishing and maintaining controls pertaining to

the Authority'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.
18. 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 the 2024 audit.

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#### SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

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

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#### DISAGREEMENTS WITH MANAGEMENT

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

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#### ANY OTHER SIGNIFICANT MATTERS

22. We would like to bring to your attention that the Authority has substantial defined benefit retirement healthcare liabilities of \$57,506,000 which are currently unfunded. Presently these liabilities would need to be funded from the operational cash flows of the Authority as employees retire. It is our recommendation that the Authority implements a plan to set aside assets to fund these liabilities either through lump sum contributions and/or recurring annual contributions.

## ACKNOWLEDGEMENTS

23. We would like to express our thanks to the staff of the Water Authority of the Cayman Islands for their help and assistance during the audit of this year's financial statements. This enabled us to provide an audit report within the agreed timetable.

Yours Sincerely,



Patrick O. Smith, CPA, CFE  
Auditor General



## APPENDIX 1 – SUMMARY OF ADJUSTED MISSTATEMENTS

	Account description and adjustment details	Debit	Credit
1.	Past service pension liability	30,000	
	Past service pension liability remeasurement		30,000
	<i>Correction of the movement in the benefit obligation.</i>		

## APPENDIX 2 – SUMMARY OF UNADJUSTED MISSTATEMENTS

	Description	Assets	Liabilities	Equity	Income	Expenses
1.	Allowance for bad debts  Bad debts expenses  <i>Overprovision of Expected Credit Loss because of cut off of post-year end payments in February (not in accordance with 90-day default assumption)</i>	285,844				(285,844)
	<b>Understated/ (Overstated)</b>	<b>285,844</b>				<b>(285,844)</b>

### APPENDIX 3 – INTERNAL CONTROL MATTERS AND SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Observation accepted by Management (Y / N)	Management Response	Implementation Date
<p><b>1. <u>Non-compliance with the Procurement Regulations</u></b></p> <p>The procurement regulations require all purchases above \$100,000 to be done through a competitive tendering process. The Water Authority failed to comply with this requirement in some instances where it was determined there is only one supplier or where multiple purchases are made throughout the year for services that accumulate in aggregate to be above the thresholds.</p>	<p><b><u>Risk/Implication:</u></b></p> <p>Non-compliance with the Procurement Regulations may result in management not being able to demonstrate value for money.</p> <p><b><u>Recommendation:</u></b></p> <p>Management should review suppliers on an annual basis that accumulate annual expenditure above the procurement thresholds.</p>	Y	<p>Management worked closely with the Public Procurement Office and reported the accumulation of all expenses incurred in 2024 by vendor on Bonfire, regardless of amount. The Authority understood that, since no individual expense exceeded the applicable thresholds, it was in compliance with procurement regulations.</p> <p>However, it seems that the Authority interprets the legal requirements differently from the Auditor General regarding the conditions under which a competitive tendering process, direct award, or framework</p>	

Observation	Risk/Implication and Recommendation	Observation accepted by Management (Y / N)	Management Response	Implementation Date
	<p>Management should consider if better value for money could be achieved by entering into a contract with the supplier through a tender process for the annual expenditure.</p> <p>If this is not possible or this is the only supplier this should be formally documented. This documentation should be retained.</p>		<p>agreement is required. Based on discussions and meetings with the Chief Procurement Officer, the Authority believed it was in compliance for 2024.</p> <p>In light of the observation, further research and review will be undertaken in 2025 to ensure there is no ambiguity in the Authority's reporting and procurement practices, and that all practices adopted by the Authority are legal and law compliant.</p>	
<p><b>2. <u>Board approval of annual performance rewards</u></b></p> <p>From inquiries with management we note that the Board approves the maximum amount allocated to the annual performance reward as</p>	<p><b><u>Risk/Implication:</u></b></p> <p>The Board may not be able to effectively demonstrate good governance over reward payments made to the Authority's employees.</p>	No	<p>Management acknowledges observation; however, the Authority holds a different position than what is noted in the impact statement. The Authority is confident that the Board has exercised sound governance over the budget process, including the</p>	

Observation	Risk/Implication and Recommendation	Observation accepted by Management (Y / N)	Management Response	Implementation Date
part of the Authority's annual budget setting process each year. However, the final amount that is allocated, as long as it is below this maximum amount approved, is not subsequently approved by the Board.	<b><u>Recommendation:</u></b>  We recommend that the Authority obtains Board approval of the final amount allocated and paid out for the annual performance reward scheme.		approval of all expenditures, inclusive, but not limited to the annual performance awards. This budget approval process is well documented. In Management's view, it is not necessary to seek duplicate Board approval for expenditures that have already been approved through the established budget process. In light of the observation, the Authority will continue to ensure that the Budget process is clear, all expenditures continue to be well documented and that the Board has been given all pertinent information to allow for sound governance of the approved expenses (inclusive of the performance award).	