


## **Financial and Performance Reporting**

Statutory Authorities and  
Government Companies for  
the year ending 30 June 2012





Our independent work  
promotes good governance,  
transparency and  
accountability in the use  
of public funds

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# EXECUTIVE SUMMARY

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I am pleased to present this report to the Legislative Assembly that summarizes the financial audits of the statutory authorities and government companies (SAGCs) for the year ending 30 June 2012. I believe that Members of the Legislative Assembly will find this report useful in their role of ensuring financial accountability and transparency for government operations.

The annual reports that include the financial statements of the individual entities of Government are the key documents that enable the Legislative Assembly and the residents of the Cayman Islands to hold ministries, portfolios, statutory authorities and government companies accountable for their use of public resources. In December 2010, I delivered my first report on the preparation and tabling of financial (and annual) reports and over the subsequent four years I have provided the Legislative Assembly with reports on the progress that Government and its related entities have made in preparing and tabling these fundamental accountability documents. A significant amount of time and resources was devoted by Government and my Office to clear the backlog of prior year financial statements while undertaking audits of more current financial statements.

This is the second general report I have submitted specifically on the results of my audits of the statutory authorities and government companies. I am pleased to report that there continues to be improvement in the timeliness and quality of SAGC financial statements. However, whilst the story is one of progress, there is still a significant way to go before accountability as envisioned in the *Public Management and Finance Law* (PMFL) is effectively achieved. The picture across the individual entities is varied, with some performing reasonably well, while others are still challenged to meet their administrative and legislative responsibilities.

In this report, I highlight my concerns regarding the timely completion and publication of credible financial and performance information including:

- the financial statements for only 12 (prior year: 8) of the 26 entities were completed in line with the statutory timetable;
- there continues to be significant delays in tabling reports in the Legislative Assembly by the responsible ministries;
- a number of entities have only been tabling their financial statements in the Legislative Assembly and not annual reports discussing their wider performance as required under the PMFL; and
- there are significant weaknesses in the internal control environments and governance of certain entities creating increased risks of mismanagement and abuse.

For the first time, I am using this report to comment on the financial performance of the entities I have audited. The financial results reported by the SAGCs provide a mixed picture. Ten entities reported a deficit for the year ending 30 June 2012, with at least six of them under significant financial strain and having challenges meeting their current obligations. This will continue to be the case in most instances without changes in operations, business restructuring or ongoing and further Government support. For a number of others, whilst not having any immediate challenges in meeting their obligations, there are warning signs of potential future challenges if action is not taken to address them in the short term.

For progress to continue towards the ultimate objective of restoring financial accountability, I believe entities should provide regular reports to the Legislative Assembly on the steps they are taking to improve the quality of their financial statement submissions and underlying information while strengthening their internal control environments and overall governance arrangements. This and future reports can provide Members of the Legislative Assembly with a roadmap for how to hold the entities to account.

I look forward to continuing my work with Government and the individual entities as they continue on the path of improving financial reporting and achieving accountability for the use of public funds.

# INTRODUCTION

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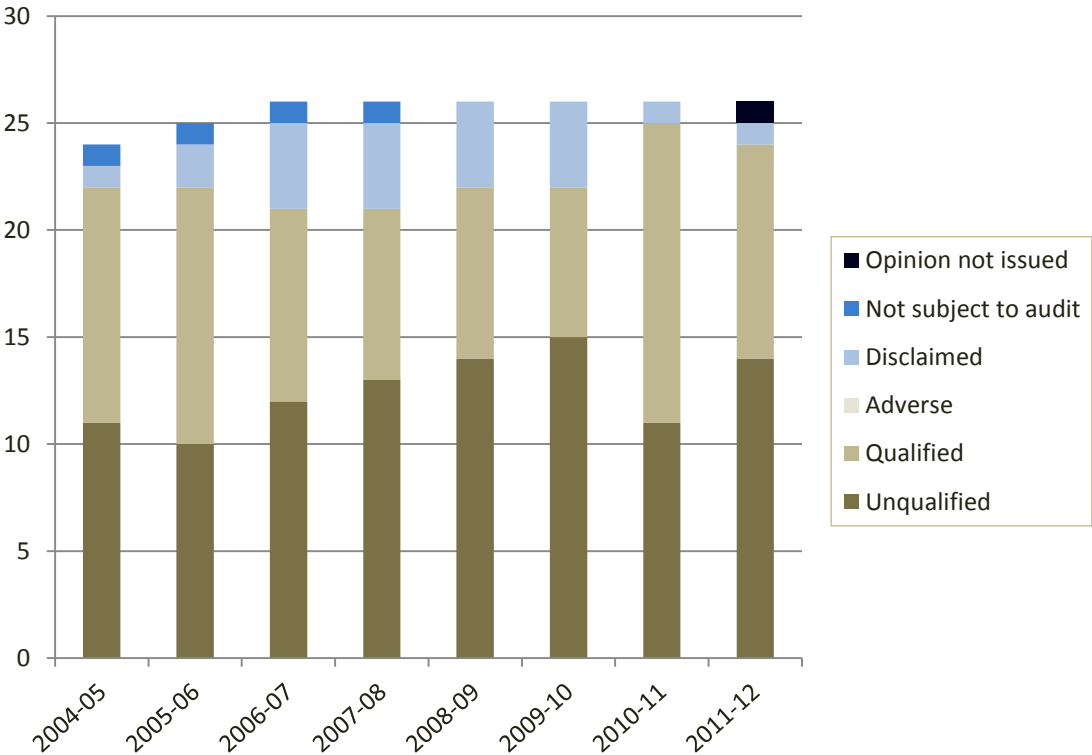
1. Timely, accurate and reliable financial information is a fundamental component in ensuring the effective governance and accountability of Government and public entities. Without this information, the decision making of the Legislative Assembly, the Core Government and public bodies is compromised as legislators and officials cannot make informed decisions regarding the allocation of resources and effectively manage the resources at their disposal. Furthermore, the Government and public bodies cannot be held accountable for how they have used public money.
2. My Office has issued a number of reports over the last few years which have discussed the issues around financial and performance reporting across the public sector and the progress that had been made in clearing the backlog of financial statements and restoring financial accountability. These reports document the progress that has been made in financial reporting by entities, but at the same time highlight that there are still fundamental gaps in the accountability of Government for the use of public resources and a significant way to go before financial accountability is restored. My reports also highlight the significant weaknesses in governance and control frameworks that I believe are impeding the ability for entities to prepare timely and accurate financial reports.
3. The purpose of this report, therefore, is to provide information about the state of financial reporting in statutory authorities and government companies (SAGCs) for the year ending 30 June 2012. This report contains the following:
  - a summary of the results of the audits for the 2011/12 financial statements of the SAGCs;
  - highlights of the financial performance reported by SAGCs;
  - the key issues that have affected the audit opinions I have issued on individual SAGC financial statements;
  - other significant governance, internal control and financial management issues that been identified through our audits of the financial statements and reported to the individual entities.

# RESULTS OF THE 2011-12 AUDITS

## INTRODUCTION

4. There has been improvement in the quality and timeliness of the annual financial reporting for SAGCs over last four years. As at the date of this report, the audits of the financial statements for all but one of the SAGCs have been completed. Only the audit of the Children and Youth Services Foundation remains outstanding.
5. For the 25 audits completed for the year ending 30 June 2012, I issued fourteen unqualified opinions, ten qualified opinions and one audit was disclaimed. Exhibit 1 below examines the trend in the audit opinions that my Office has issued since the introduction of the PMFL in 2004/05.

**Exhibit 1: Statutory Authority and Government Company audit opinions for 2011-12**



6. Appendix A provides further detail about the audit opinions issued including the date they were signed and the date the annual reports or financial statements were tabled in the Legislative Assembly if that has occurred. Appendix B provides definitions of the four audit opinions I can give according to the *International Standards for Auditing* we follow.



## QUALITY OF THE FINANCIAL STATEMENTS

7. The purpose of annual financial reporting is to provide effective accountability to the Legislative Assembly and residents of the Cayman Islands about the financial position of SAGCs and how they have used public resources. It should be expected that all SAGCs should present annual financial statements that receive an unqualified audit opinion, which provides assurance that the information is credible and reliable, and reflects the entities financial position and how it used resources.
8. A disclaimer of opinion or adverse opinion should be considered as a fundamental failure undermining public accountability, transparency and trust. Apart from clearly demonstrating that an entity cannot effectively account for how it used resources, these opinions present clear evidence of failures in the areas of governance, internal control and financial management.
9. It is within this context that the overall quality of the financial statements of the SAGCs has improved and is now starting to stabilize at a position where nearly all of the financial statements of the SAGCs present fairly, for the most part, the financial results of the entities in line with the relevant accounting standards. There continues to be improved accounting practices, better supporting information and increased presentational quality.
10. As shown in Exhibit 1, there has been an increase in the number of unqualified audits compared to the prior year, with a corresponding decrease in the number of qualified reports. We have reached a position where only one adverse or disclaimer of opinion has been issued on the smallest SAGC, the Sister Islands Affordable Housing Development Corporation. Exhibit 2 provides an analysis across the 10 entities of the different qualifications on their audit reports.

**Exhibit 2: Statutory Authority and Government Company Qualifications**

Entity	Past Service Pension Liability	Related Parties	Accounts Payable	Property Plant and Equipment	Equity	Cash and Cash Equivalents	Asset Impairment	Insurance premium Classification	Completeness of revenue	Completeness of receivables	Inventory	Compliance with IFRS	Opening Balances	Over-paid contributions
Cayman Islands Airport Authority														
Cayman Islands National Museum														
Cayman Turtle Farm (1983) Ltd.														
Civil Aviation Authority														
Health Services Authority														
National Gallery of the Cayman Islands														
Port Authority of the Cayman Islands														
Public Service Pensions Board														
Tourism Attraction Board														
Water Authority of the Cayman Islands														

11. With respect to the ten financial statements that were qualified, in five instances the audit reports contained only one qualification, mostly due to the lack of appropriate supporting information, not enabling me to reach a conclusion on a specific material balance or transactions. I also included in my audit reports on the financial statements of eleven entities a number of “*matters of emphasis*” or “*other matters*”, which without further qualifying my opinion, that I believed needed to be brought to the attention of the reader of the related financial statements.

12. Exhibit 3 provides details of the three qualification matters that were more prevalent across entities: past pension service liabilities; related party transactions; and completeness of revenues, along with one “*other matter*” that was reported for a number of entities. Specific details of each individual entity’s qualifications and/or “*matters of emphasis*”/“*other matters*”, are provided in Appendix D.

**Exhibit 3: Most prevalent qualifications in Statutory Authority and Government Company financial statements – 2011-12**

**Past pension service liabilities:** SAGCs are required to recognize an amount for past service pension liability in their financial statements. However I was not able to quantify the liability as at 30 June 2012 as an actuarial valuation had not been completed for this date. As a result, for the three entities where this liability was material, I was unable to determine if the amounts that were established as a past service pension liability were fairly stated in their financial statements and qualified my opinions accordingly. For the Water Authority, this was the only qualification in their financial statements.

**Related parties/conflicts of interest:** Accounting standards require the identification of transactions with related parties including the total amount of related party transactions and any outstanding balances at year-end. This is to ensure that the entity’s financial statements contain the disclosure necessary to draw attention to the possibility that its financial position and financial performance may have been affected by such parties.

Most entities now request board members and senior managers to declare related party interests for the reporting period, and have put in place the requirement for annual declarations. However, in a few instances, board members did not or refused to declare their interests resulting in a qualification of the audit opinions.

**Completeness of revenues:** A number of entities derive a significant portion of their revenue through cash receipts (donations) that are not subject to the kind of controls that permit independent audit verification. Accordingly, the audits of these revenues were limited to the amount recorded in the accounts and I could not opine on how much should have been recorded.

**Matters of emphasis/other matters:** While the financial statements of all SAGCs were prepared on the basis that they would continue to operate in the future, and no audit opinions were modified in regard to this, for a number of entities I have raised concerns about their ability to continue operating in the future, without ongoing or further financial support from core Government.

13. While a number of SAGCs are now operating with more stable governance environments on which to build effective financial management and financial reporting, there are still underlying issues that continue to have an impact on the effective financial management and reporting across certain SAGCs.
14. The **effective and efficient** production of reliable and credible financial information is predicated on sound governance and internal control frameworks which provide management with assurance regarding the:
- effectiveness and efficiency of operations;
  - safeguarding of public assets;
  - reliability of information in financial reports; and
  - compliance of activities with applicable laws and regulations.
15. Such frameworks enable management to use financial information with confidence throughout the year to: support effective decision making; ensure that resources are not being wasted, mismanaged or abused; and, being used in line with laws and regulations. Finally the frameworks enable entities to prepare reliable annual financial statements more efficiently and effectively, in turn leading to more efficient and timelier audits.
16. Whilst some entities are performing better than others, the evidence from our financial statements audits, and our recent governance audits, clearly shows that there are still significant issues with respect to the governance, financial management and internal control frameworks operating across SAGCs. I have reported to the boards and management of the individual entities a number of other significant issues which, although they do not directly affect the opinion reached on the financial statements, impact governance, internal controls, and effective financial management and reporting, and also have the potential to significantly impact the efficient use of resources and the achievement of results.
17. In Appendix D, I provide details about the specific issues we have reported to individual SAGCs about the wider governance, internal control and management issues, along with the qualification matters. Because of their significance for the effective operations of the entities, I highlight the following specific concerns :
- **Cayman Islands Airports Authority:** Breakdowns in governance, with political and Board involvement in operational matters, including significant concerns around conflicts of interest.
  - **Civil Aviation Authority:** Breakdown in governance due to poor relationship between the Board and management.
  - **Health Services Authority:** Deficiencies in the internal controls in place to ensure that all revenues are effectively captured and billed, and the significant write off of patient receivables and allowances for bad debt.

- **Port Authority:** Reported a large range of issues about the overall governance of the entity.
  - **Tourism Attraction Board:** Fundamental weaknesses in the internal control environment leaving it exposed to significant risk of loss and misappropriation of public funds.
18. At this stage I also wish to highlight again two broad governance issue that continue to impact a number of entities – organisational capacity and the unclear role of boards and management.
19. **Organisational capacity:** The organisational capacity of a number of entities to establish effective financial management, governance and internal control arrangements, and produce compliant financial statements is an ongoing issue. The scale and size of some entities impact on their ability to retain the resources with the necessary skills and expertise, and put in place the appropriate frameworks and controls. This leads to increased risks of error, fraud, mismanagement and abuse and reduces the likelihood that timely and reliable financial statements are produced.
20. **Role of boards and management:** For entities to function effectively and be well governed, boards and executive management need to have a good working relationship based on clearly delineated roles and responsibilities.
21. In a number of our audits, we found there was an unclear understanding between the role of the board and executive management. Good practice requires boards to provide strategic direction, policy approvals, effective oversight, and hold executive management to account for the efficient and effective operation of the entity. Executive management, on the other hand, is responsible for managing the operations of the entities respecting the established policies, and being accountable to the board for their actions.
22. We found examples where boards are getting involved in the day-to-day operations of the entities, rather than letting the executive management run the business for which they are remunerated creating strained working relationships between the board and management. These kinds of issues have a negative impact on entities and their ability to deliver effective and efficient services/activities.
23. The lack of clarity between the roles of boards and management is a key indicator of poor governance of the SAGCs which can lead to higher risks of mismanagement (including fraud and corruption), poor internal controls, and lower quality external reporting including substandard financial reporting. As a result of our findings, I am carrying out governance audits in some of the SAGCs with a view to reporting to the Legislative Assembly on these important matters.

## TIMELINESS OF THE FINANCIAL STATEMENTS

24. There continues to be improvements in the timeliness of draft financial statements prepared for audit along with better supporting information. This has led to improvements in the timeliness of the completion of audits and issuance of the financial statements.
25. For the 2011-12 financial statements, I received all submissions by the 31 August deadline for the second year running, although the quality and auditability of these initial submissions continued to vary. We completed twelve audits by the statutory deadline of 31 October 2012, as compared to eight for 2010-11, and by the end of June 2014 all but two of the audits had been completed, compared to four in the prior year.
26. However, significant improvement is still required if the objective of meeting the statutory timescales set out in the PMFL are ever to be achieved. The outstanding financial statements for prior years continued to have an impact on the timely completion of some of the 2011-12 financial statements, and issues around quality of initial submissions and supporting information also continued to have an impact, as well specific governance issues in a few entities.

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### DELAYS IN COMPLETION

27. The timely issuance of financial statements is a critical element of good accountability by entities. As I note in Appendix A, a significant number of our audits have been signed off after the statutory deadline of 31 October. While the results for 2011-12 represent an improvement, I continue to have concerns about the time it is taking between the date of audit work completion and the date of final sign off of the financial statements by management and boards.
28. I expected management and boards to respond in a timely manner to our audit findings leading to more timely financial reporting. This was not the case in several entities. For future audits, I am looking for an improvement in the timeliness by which entities deal with the results of our audits to enable the completion of their financial statements more expeditiously.

## TRANSPARENCY AND ACCOUNTABILITY

29. The final link in the accountability chain for the use of public resources that starts with the approval of the Budget in the Legislative Assembly is the tabling of each SAGC's annual report in the Legislative Assembly, at which time they become public documents. Among other objectives, the annual report provides explanations for the financial results. Without annual reports, it is almost impossible for stakeholders, Legislators and citizens, to understand how public resources have been used and to hold Government and public bodies accountable.

30. As at the date of this report, the annual reports and/or financial statements for only 15 entities have been tabled for the year ending 30 June 2012. Eight SAGC reports for the prior year have also still to be tabled. In most cases where an annual report has been tabled for 2011-12 and prior years, it is just the financial statements rather than the full annual report as required by the PMFL. In addition, we found that the annual reports were in most cases tabled well after the financial statements were signed off, decreasing the value and usefulness of the information to stakeholders, Legislators and the public.
31. The timely issuance of an annual report and its tabling in the Legislative Assembly is probably the most fundamental element in the accountability framework for a public sector entity. Without this, the accountability of these entities for their performance and use of resources is undermined, as Legislators and all other stakeholders are not able to review performance and hold them accountable.
32. Even after annual reports or financial statements are tabled in the Legislative Assembly it can still be challenging for stakeholders to find the documents. Whilst they should be available on the website of the Legislative Assembly (<http://www.legislativeassembly.ky/>) each entity should proactively be making their annual reports or financial statements accessible to all stakeholders on their website and through other appropriate mechanisms, to further promote transparency and accountability.
33. In the future, as more financial statements are signed off within the statutory timeframes, it should be a priority for entities to prepare annual reports that discuss their operational and financial performance, ensure these are tabled in Legislative Assembly in accordance with the timescales required in the PMFL, and made easily accessible to all stakeholders. Until this is achieved, the Legislative Assembly will continue to remain in the dark about how SAGCs ultimately collect and spend public monies.

# FINANCIAL PERFORMANCE

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## INTRODUCTION

34. In this section, I provide commentary and analysis on the financial performance of SAGCs. The main avenue for detailed discussion and analysis of individual entity results should be through the annual reports of entities, and it is not our intention to replace these or fill the vacuum where annual reports have not been prepared. My objective for this commentary and analysis is to provide some transparency and accountability that is currently missing.

## 2011-12 REPORTED RESULTS

35. For the year ending 30 June 2012 Exhibit 4 presents the revenues generated, the expenses incurred and the surplus/deficit reported for the year. In examining these financial reports, the following must be borne in mind:

- the results of six entities have been amended for comparison purposes by combining operating and administrative expenses;
- for the National Gallery and National Museum the results reflect both unrestricted and restricted transactions;
- the results reported for the Cayman Islands National Museum are for the 24 month period ending 30 June 2012 rather than 12 months;
- the results reported by the Public Service Pensions Board and the Segregated Insurance Fund are not included, as they report on the pension funds and contributions from approved providers respectively, and are not comparable to the other SAGCs;
- CINICO's revenues from Government represent the output funding for Seamen, Veterans and civil servant pensioners. The monthly contributions from government entities for current employees form the majority of revenue from other sources;
- the unaudited results for the Children & Youth Services Foundation have been included for completeness; and
- the Sister Islands Affordable Housing Development Corporation's results have been included for completeness even though a disclaimer of opinion was issued.



**Exhibit 4: SAGCs Revenues, Expenses and Surplus/Deficit for the year ending 30 June 2012**

Entity	Revenues from Government (Outputs)	Revenue from Other Sources	Total Revenue	Expenses	Surplus/ (Deficit)
Cayman Airways Limited	15,770,000	52,278,444	<b>68,048,445</b>	72,397,116	<b>(4,348,672)</b>
Cayman Islands Airport Authority	0	24,125,305	<b>24,125,305</b>	20,065,478	<b>4,059,827</b>
Cayman Islands Development Bank	577,875	2,490,475	<b>3,068,350</b>	3,835,230	<b>(766,880)</b>
Cayman Islands Monetary Authority	17,350,000	1,060,000	<b>18,410,000</b>	18,296,000	<b>114,000</b>
Cayman Islands National Museum **	1,311,460	314,828	<b>1,626,288</b>	2,387,528	<b>(761,240)</b>
Cayman National Cultural Foundation	579,655	172,558	<b>752,213</b>	954,408	<b>(202,195)</b>
Cayman Islands Stock Exchange	0	1,675,228	<b>1,675,228</b>	1,269,303	<b>405,925</b>
Cayman Turtle Farm (1983) Ltd.	0	5,610,872	<b>5,610,872</b>	13,745,366	<b>(8,134,494)</b>
Children & Youth Services Foundation*	2,206,809	59,468	<b>2,266,277</b>	2,153,266	<b>113,011</b>
CINICO	22,639,738	32,235,049	<b>54,874,787</b>	57,510,677	<b>(2,635,890)</b>
Civil Aviation Authority	0	5,606,415	<b>5,606,415</b>	3,573,087	<b>2,033,328</b>
Electricity Regulatory Authority	120,000	957,070	<b>1,077,070</b>	596,883	<b>480,187</b>
Health Services Authority	24,806,045	60,891,253	<b>85,697,298</b>	90,307,001	<b>(4,609,703)</b>
Information and Communications Technology Authority	339,526	1,334,303	<b>1,673,829</b>	1,440,946	<b>232,883</b>
Maritime Authority of the Cayman Islands	1,093,942	7,889,574	<b>8,983,516</b>	9,139,968	<b>(156,452)</b>
National Drug Council	455,958	10,537	<b>466,495</b>	451,831	<b>14,664</b>
National Gallery of the Cayman Islands	422,000	668,115	<b>1,090,115</b>	750,991	<b>339,124</b>
National Housing Development Trust	658,000	619,000	<b>1,277,000</b>	2,671,000	<b>(1,394,000)</b>
National Roads Authority	10,940,790	327,937	<b>11,268,727</b>	11,272,896	<b>(4,169)</b>
Port Authority of the Cayman Islands	0	18,950,756	<b>18,950,756</b>	18,401,758	<b>548,998</b>
Sister Islands Affordable Housing Development Corporation	79,000	1,000	<b>80,000</b>	75,000	<b>5,000</b>
Tourism Attractions Board <sup>1</sup>	2,090,591	970,122	<b>3,060,713</b>	3,002,733	<b>57,980</b>
University College of the Cayman Islands	4,231,440	3,159,555	<b>7,390,995</b>	6,945,896	<b>445,099</b>
Water Authority of the Cayman Islands	0	27,416,466	<b>27,416,466</b>	25,992,541	<b>1,423,925</b>

\* Unaudited

\*\* Results for the two years ending 30 June 2012

36. In Appendix C, further analysis provides details of the following:

- key balances on the statements of Financial Position as at 30 June 2012; and
- the level of surpluses/deficits, revenues provided by Government and expenses reported by each SAGC over the three financial years from 2009-10 to 2011-12;

37. At a global level, it is not straightforward or necessarily appropriate to compare performance across the entities as they all generally undertake different activities and perform different functions.

However the following highlights can be drawn from Exhibit 4 and the information in Appendix C:

- the cumulative deficit/loss reported by the entities increased over the three year period by \$6.9 million (118%);
- cumulative revenues over the three year period also increased, however cumulative expenses increased by more than double the amount of revenues generated from sources external to Government;
- Excluding the PSPB, 42% of SAGCs reported a loss for the year ending 30 June 2011 and 2012 compared to 54% for the year ending 30 June 10;
- Consistent with prior years around 11 SAGCs received the majority of their funding (output payments or equity injections) from Government;
- the financial performance and position show that a number of the SAGCs were under significant financial strain, with challenges in meeting their current obligations. This will continue to be the case in most instances without changes in operations, business restructuring or ongoing and further Government support;
- the level of revenues provided through Government output payments (payments to SAGCs for the provision of services) was slightly over \$100m annually. It increased by approximately 5% over the three financial years 2009-10 to 2011-12, but this was mainly due to increased funding to one entity, Cayman Airways; and
- in addition SAGCs also received Government equity injections, which were nearly \$20m in 2011-12, and other items such as civil service health insurance contributions of around \$30m.

38. Under section 46(2)(b) of the *PMFL* it states that “A statutory authority or government company shall not produce an output during a financial year unless – the Governor in Cabinet, or another entity or person, has by way of formal agreement, agreed to pay for the full cost of the output produced” indicating that each SAGC should be recovering the full costs of their activities and not incurring deficits consistently over the reporting periods. In Table 2 of Appendix C, at least 8 entities have reported deficits consistently over the three years raising significant questions about their compliance with the *PMFL* and the legality of operating with annual deficits.

## SPECIFIC ENTITY RESULTS

39. This section of the report provides a brief analysis of the reported results for a number of the SAGCs, focusing on those entities that have or potentially have concerns regarding their continuing operation or where there are other matters that I feel should be reported in the public interest.

### CAYMAN AIRWAYS LTD. (CAL)

40. CAL generated income of \$52.3m, and incurred expenditure of \$72.4m leading to an operating loss of \$20.1m for the year before Government output funding. This is fairly consistent with the operating losses generated in the prior year. Whilst the annual revenues generated have increased by \$6.3m over the last three years this has nearly been matched by increased costs of \$5.6m.

41. After funding from Government of nearly \$15.8m, the net loss for the year ending 30 June 2012 was \$4.3m. While this represents an improvement on the net loss incurred in the prior two years, output funding received from Government has increased over the same period by \$5.3m which explains the majority of the change in the net loss. Exhibit 5 provides details of CAL's financial performance and position for the last three years.

#### Exhibit 5 – CAL's financial performance and position 2009-10 to 2011-12

Statement of Financial Performance	Year ending 30 June 2010	Year ending 30 June 2011	Year ending 30 June 2012
Revenues	45,910,492	47,802,343	52,278,444
Output Funding from Government	10,500,000	15,000,000	15,770,000
<b>Total Revenues</b>	<b>56,410,492</b>	<b>62,802,343</b>	<b>68,048,445</b>
Expenses	66,849,044	67,668,088	72,397,116
<b>(Loss)</b>	<b>(10,438,552)</b>	<b>(4,865,745)</b>	<b>(4,348,672)</b>
<b>Statement of Financial Position</b>			
	<b>As at 30 June 2010</b>	<b>As at 30 June 2011</b>	<b>As at 30 June 2012</b>
Shareholder Deficit	(58,700,064)	(58,465,809)	(57,714,481)
Equity Injection	0	5,100,000	5,100,000
Accumulated Deficit	(110,961,822)	(115,827,567)	(120,176,239)
Current Assets	6,647,214	3,640,383	2,705,023
Current Liabilities	36,085,696	49,533,021	52,464,773
Current Ratio	0.18	0.07	0.05

42. The financial position as at 30 June 2012 shows that CAL is dependent on Government support to continue operating in the future. The shareholder deficit is \$57.8m after a further equity injection by the Government of \$5.1m during the year. CAL had current liabilities of \$52.5m at 30 June 2012 which are significantly greater than the total assets of the company of \$19.3m let alone the current of assets of only \$2.7m.
43. As noted in note 9 of their financial statements, due to the shortage of available funds, CAL had difficulties paying its creditors. As at 30 June 2012, CAL had accounts payable of \$26.9m, including \$10.9m payable to the Cayman Islands Airports Authority. It also had a bank overdraft of \$7.3m and loans payable during the year up to \$9.4m.
44. In the event that Government decides to discontinue financial support, CAL would unlikely to be able to continue operating in the future and, therefore, unable to realize its assets and discharge its liabilities in the normal course of business.

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CAYMAN ISLANDS DEVELOPMENT BANK (CIDB)

45. CIDB posted a loss for the year ending of 30 June 2012 of \$767k which is consistent with the losses in the prior two years. Exhibit 6 provides details of the bank's financial performance and position for the last three years.

**Exhibit 6 – CIDB's Financial Performance and Position 2009-10 to 2011-12**

Statement of Financial Performance	Year ending 30 June 2010	Year ending 30 June 2011	Year ending 30 June 2012
Operational Revenues	2,691,600	2,504,999	2,490,475
Output Funding from Government	577,872	577,875	577,875
Operational Expenses	(1,891,808)	(2,065,653)	(2,236,843)
<b>Net revenue from operation</b>	<b>1,377,664</b>	<b>1,017,221</b>	<b>831,507</b>
Administrative Expenses	(2,078,824)	(1,794,885)	(1,598,387)
<b>(Loss)</b>	<b>(701,160)</b>	<b>(777,664)</b>	<b>(766,880)</b>
Statement of Financial Position	As at 30 June 2010	As at 30 June 2011	As at 30 June 2012
Shareholder Equity	4,879,934	4,102,270	3,335,390
Bonds/Loans Payable	30,100,373	38,032,878	37,657,381
Loans/Advance to Customers (Net)	34,542,335	38,685,124	36,118,603
Provisions for Bad Debts	2,667,443	3,245,673	4,348,112
Bad Debt Write offs	0	410,188	0

46. The annual losses incurred by the bank have been significant for the last three years; between \$701k and \$778k. Revenues from interest on loans and loan commitment fees have dipped by over \$200k during this period or about 7.5%. When combined with an increase in operational expenses of over \$300k during the same timeframe, due to increasing annual provisions for bad debts arising from the high level of loan delinquency, the net revenue from operations over the three year period has decreased by \$546k. However, over the three year period CIDB has reduced its administrative expenses significantly by \$480k or 24%, as professional fees particularly, but salaries also, have been reduced. Therefore CIDB has been able to compensate for the decline in net revenues from operations through controlling its administrative expenses.
47. As at 30 June 2012 CIDB had sufficient resources to meet its current liabilities. However the Bank held a number of bonds, guaranteed by Government, which fall due in 2015. Bonds totaling \$31.6m are repayable between April and July 2015, with a further bond for \$4.2m repayable in January 2016. The bank will not have the resources to meet these obligations and it will need to re-finance or rely on the Government to meet these liabilities.
48. The CIDB's loan delinquency rate was extremely high with 224 (37%) out of a portfolio of 601 customer loans over 90 days in arrears. On its loan portfolio of \$40.5m the Bank made a provision of \$4.3m for impaired loans (bad debts). As at 30 June 2012 CIDB also reported loans of \$3.4m that were delinquent (but not considered impaired i.e. less than 90 days in arrears), down significantly from the \$13.4m (35% of the loan portfolio) reported as at 30 June 2011. However this decrease reflected in part that it restructured a significant number of delinquent loans (\$2.6m) during 2011-12, at which point they were no longer considered delinquent.
49. The high rate of delinquency has marginalized the CIDB's ability carry out its primary function to mobilize, promote, facilitate and provide finance for the expansion and strengthening of economic development of the Cayman Islands.

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CAYMAN TURTLE FARM LTD. (CTF)

50. The CTF generated income of \$5.6m during the year, an increase of \$400k on the prior year. After taking account of operating and administrative expenses the Turtle Farm generated a net loss for the year of \$8.1m, which is consistent with the losses generated in the prior two years, although a significant improvement on the loss of over \$12m in 2008-09.

51. The financial position as at 30 June 2012 indicates that the Turtle Farm is dependent on Government support to enable it to continue operating in the future. Despite an equity injection of nearly \$9.7m from the Government, the shareholder deficit is \$3.8m as a result of accumulated losses of over \$59m. The current liabilities of CTF are \$14.5m which is significantly greater than the current assets of only \$3.5m. Non-current liabilities are \$28m, the majority of which are guaranteed senior notes and long term bank loans that are guaranteed by Government. However, while non-current assets are valued at \$35.3m there are uncertainties over the recoverable amount of these assets, which has resulted in the qualification regarding the impairment of assets. Exhibit 7 provides details of CTF's financial performance and position for the last three years

**Exhibit 7 –CTL's Financial Performance and Position 2009-10 to 2011-12**

<b>Statement of Financial Performance</b>	<b>Year ending 30 June 2010</b>	<b>Year ending 30 June 2011</b>	<b>Year ending 30 June 2012</b>
Revenues	5,993,256	5,214,402	5,610,872
Expenses	14,344,057	13,178,107	13,745,366
<b>(Loss)</b>	<b>(8,350,801)</b>	<b>(7,963,705)</b>	<b>(8,134,494)</b>
<b>Statement of Financial Position</b>			
	<b>As at 30 June 2010</b>	<b>As at 30 June 2011</b>	<b>As at 30 June 2012</b>
Shareholder Deficit	(7,188,376)	(5,299,512)	<b>(3,764,588)</b>
Equity Injection	9,555,610	9,852,569	9,669,418
Current Assets	2,660,637	3,145,825	3,502,326
Current Liabilities	14,330,106	14,196,328	14,522,684
Current Ratio	0.19	0.23	0.25

52. In the event that Government decides to discontinue financial support, the Turtle Farm would unlikely be able to continue operating in the future, and it would be unable to realize its assets and discharge its liabilities in the normal course of business.

**CAYMAN ISLANDS NATIONAL INSURANCE COMPANY (CINICO)**

53. For the year ending 30 June 2012, CINICO recorded a net loss of \$2.6m compared with a net loss of \$3.0m for the prior year. Over the last three years there has been a sharp rise in medical claims paid. They have increased by over \$10m (20%) whilst revenues have not kept pace as a result of discounts being applied to the premiums paid by Government amounting to \$2.9m and \$3.7m for the years ended 30 June 2011 and 2012 respectively. Exhibit 8 provides details of CINICO's financial performance for the last three years and specific information on its financial position.

**Exhibit 8 – CINICO’s Financial Performance and Position 2009-10 to 2011-12**

<b>Statement of Financial Performance</b>	<b>Year ending 30 June 2010</b>	<b>Year ending 30 June 2011</b>	<b>Year ending 30 June 2012</b>
Revenues	30,668,004	28,498,103	32,235,049
Government Output Payments	19,927,842	21,030,540	22,639,738
<b>Total Revenues</b>	<b>50,595,846</b>	<b>49,528,643</b>	<b>54,874,787</b>
Expenses	47,089,907	52,571,217	57,510,677
<b>Net Income/(Loss)</b>	<b>3,505,939</b>	<b>(3,042,574)</b>	<b>(2,635,890)</b>
<b>Statement of Financial Position</b>	<b>As at 30 June 2010</b>	<b>As at 30 June 2011</b>	<b>As at 30 June 2012</b>
Shareholder Equity	12,505,157	9,462,583	6,826,693
Cash and Cash Equivalents	13,744,588	8,835,451	3,479,363

54. As a Class “A” insurance company, CINICO is required to maintain a minimum of \$3.0m in shareholder’s equity (capital). Shareholder’s equity decreased to \$6.8m as at 30 June 2012, from \$9.5m as at 30 June 2011. The decrease is a result of the net loss of \$2.6m for year ended 30 June 2012. The increasing strain on the CINICO’s capital position follows from the directive from the Government, the Company’s sole shareholder, to discount the 2010-11 civil servant premium by ten percent, and in 2011-12 to discount the civil servant, pensioners, and Seafarers and Veterans premiums.
55. As at 30 June 2012 the Government owed CINICO \$12.1m relating to output payments for pensioner, seaman and veteran premiums, and overseas health benefits for indigents, seamen and veterans. Of this amount, \$5.4m was outstanding for more than one year, with \$3.1m relating to the year ending 30 June 2009. As a result, a significant amount of the CINICO’s working capital is tied up with Government, and the cash and cash equivalents available on demand to CINICO as at the year-end had decreased sharply over the last few years from \$13.7m as at 30 June 2010 to \$3.5m as at 30 June 2012, which is less than one month’s working capital.
56. Further information about CINICO’s financial position and performance can be found in their annual report which provides a detailed analysis of the Company’s results.

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**CULTURAL AND ARTS COMPANIES**

57. The three cultural and arts organizations, the National Gallery; the National Museum; and the Cultural Foundation are all strongly dependent on Government funding to continue operating in the future. If the restricted building fund of the National Gallery is excluded at 30 June 2012, all three entities reported significant operating losses. In all three entities, the majority of the operating revenues were provided through Government subsidy, which has shown a clear downward trend in

the three years up to the year ending 30 June 2012. Without ongoing and increasing levels of Government support the sustainability of these entities will become increasingly challenging without a reduction in services.

#### HEALTH SERVICES AUTHORITY (HSA)

58. The HSA generated total revenues of \$85.7m during the year, and incurred expenses of \$90.3m leading to a deficit of \$4.6m for the year ending 30 June 2012. With respect to its statement of financial position as at 30 June 2012, the HSA reported a reasonably healthy position with a net worth of over \$80m and with more than sufficient resources to meet its liabilities, meaning there are no concerns about its ability to operate in the future. However it is worth noting that the HSA has generated accumulated deficits of \$64.5m since it came into existence and the positive position, and its ability to continue operating reflects the significant equity injections of \$128m over the years from Government. Exhibit 9 provides details of the HSA's financial performance and position for the last three years.

#### Exhibit 9 – HSA Financial Performance and Position 2009-10 to 2011-12

<b>Statement of Financial Performance</b>	<b>Year ending 30 June 2010</b>	<b>Year ending 30 June 2011</b>	<b>Year ending 30 June 2012</b>
Patient Services Revenue	54,754,123	54,563,618	60,891,253
Government Output Funding: Patient Services	13,735,934	14,358,639	10,811,929
Government Output Funding: Programmes	15,515,171	14,545,790	13,994,116
<b>Total Revenues</b>	<b>84,005,228</b>	<b>83,468,047</b>	<b>85,697,298</b>
Expenses	77,765,015	83,712,158	90,307,001
<b>Net income/(Loss)</b>	<b>6,240,213</b>	<b>(244,111)</b>	<b>(4,609,703)</b>
<b>Statement of Financial Position</b>	<b>As at 30 June 2010</b>	<b>As at 30 June 2011</b>	<b>As at 30 June 2012</b>
Allowance for Bad Debts	48,084,042	26,886,785	29,890,405
Bad Debt Write offs	5,110,889	38,570,879	13,663,398
Equity Injection	2,204,210	1,808,000	0

59. During the last three years, the HSA has moved from a surplus position to reporting a significant deficit. Whilst total revenues over that period have increased by \$1.69m (2%) expenses have increased by over \$12.5m (16%), with a significant portion of the increase related to increased staff costs of over \$6.2m. Funding for Government programmes, including Faith Hospital, District Clinics and Ambulance has over the same period decreased by just over \$1.5m (9%).



60. A significant impact on the HSA's financial performance has been the under-funding of Government funded patient services including services for indigents and those beyond insurance coverage. Under the purchase agreement the Government agreed to purchase these services and budgeted nearly \$10.8m. The budget documents indicated that the projected cost for the prior year were nearly \$13.3m. However as described in note 11 of the HSA's financial statements the budgeted amount did not cover the billed services, with a shortfall of \$5.2m. We were informed that the Government indicated to the HSA that it would not provide more funding for these services than was included in the budget, but directed it to continue providing the services and absorb the costs.

61. Apart from the fact that the budget for these services was understated, the actions of the Ministry of Health and HSA were in contravention of the PMFL:

*“A statutory authority or government company shall not produce an output during a financial year unless – the Governor in Cabinet, or another entity or person, has by way of formal agreement, agreed to pay for the full cost of the output produced”.*

62. This is clearly a factor in the HSA reporting a loss which is also contrary to Section 18 3(a) of the *HSA Law*, requiring a positive net income figure.

63. The financial statements also reflect the significant challenges the HSA faces in collecting its revenues. As at 30 June 2012 the HSA had allowances for bad debts of nearly \$30m on accounts receivable of \$40m. Over the last three years the HSA had on average made additional provisions for bad debt of approximately \$16m annually and had written off bad debts totaling \$57.3m that had accumulated over the last 7 to 8 years.

64. Ultimately the financial performance and position of the HSA and also CINICO reflect the rising cost of providing healthcare, the challenges in collecting its revenues and also getting the Government to meet the cost of the services it requires the HSA to provide.

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#### MARITIME AUTHORITY OF THE CAYMAN ISLANDS (MACI)

65. MACI has posted a loss in each of the last three years. Whilst revenues from external sources have shown growth over the three years of \$0.74m (10%) this has not been sufficient for MACI to generate a surplus, as output revenue from Government decreased by \$0.18m (14%) and expenses increased by \$0.45m (5%). Exhibit 10 provides details of the MACI's financial performance for the last three years.

**Exhibit 10 – MACI Financial Performance 2009-10 to 2011-12**

<b>Statement of Financial Performance</b>	<b>Year ending 30 June 2010</b>	<b>Year ending 30 June 2011</b>	<b>Year ending 30 June 2012</b>
Revenues	7,146,890	7,730,800	7,889,574
Output Funding from Government	1,271,654	1,280,652	1,093,942
<b>Total Revenues</b>	<b>8,418,544</b>	<b>9,011,452</b>	<b>8,983,516</b>
Expenses	8,691,175	9,145,349	9,139,968
<b>(Loss)</b>	<b>(272,631)</b>	<b>(133,897)</b>	<b>(156,452)</b>

66. MACI has sufficient resources to meet its liabilities and for the foreseeable future is in a reasonable financial position despite reporting a significant decline in its retained earnings and cash outflow over the last three years. However, it will need to examine as a matter of priority how it can reverse the trend of losses if this is to remain the case because as reported in note 23 of financial statements, the budgeted funding from Government has been reduced to \$134k for 2012-13, a decrease of \$959k or 88%.

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NATIONAL HOUSING DEVELOPMENT TRUST (NHDT)

67. The NHDT has continuously operated at a loss since it came into existence. For the year ending 30 June 2012, it incurred a loss of \$1.4m on total revenues of \$1.3m, of which over half were generated through output payments from Government. The trust has seen a significant decline in its revenue from sale of goods and services (mortgage payments and rental income) due to the reduction in the revenue base resulting from the demolition of the Windsor Park houses.

68. Excluding the accelerated depreciation and the losses incurred on the disposal of property due to the condition and subsequent demolition of its inventory of Windsor Park homes in the prior two years, the costs of NHDT still increased due to increasing financing costs on the bonds and the increased costs incurred for private rental accommodation for clients relocated from the Windsor Park homes. Exhibit 11 provides details of the NHDT's financial performance and position for the last three years.

**Exhibit 11 – NHDT’s Financial Performance and Position 2009-10 to 2011-12**

<b>Statement of Financial Performance</b>	<b>Year ending 30 June 2010</b>	<b>Year ending 30 June 2011</b>	<b>Year ending 30 June 2012</b>
Revenues	863,832	793,986	619,000
Output Funding from Government	589,696	550,111	658,000
Total Revenues	1,453,528	1,344,097	1,277,000
Expenses	5,557,437	2,805,791	2,671,000
<b>(Loss)</b>	<b>(4,103,909)</b>	<b>(1,461,694)</b>	<b>(1,394,000)</b>
<b>Statement of Financial Position</b>	<b>As at 30 June 2010</b>	<b>As at 30 June 2011</b>	<b>As at 30 June 2012</b>
Shareholder Deficit	(4,283,000)	(4,558,000)	(885,000)
Bonds Payable	14,025,806	21,632,000	20,510,000
Equity Injection	1,145,716	1,187,000	5,067,000

69. Whilst NHDT currently has sufficient resources to meet its current liabilities, it is dependent on Government support to enable it to continue operating in the future. Despite significant injections of equity from Government, with over \$5m being provided during 2011-12, the current shareholder deficit is \$0.9m as a result of accumulated losses of over \$13.7m. For the financing of NHDT’s ongoing deficits and meeting the annual principal repayments on its bonds of over \$1m, NHDT will require further a significant equity injection from Government to meet its obligations and to continue operating in the future. As at 30 June 2012 the balance of bonds payable was \$20.5m which are guaranteed by Government.
70. The NHDT financial position is also affected by its ability to manage its accounts receivable. As at 30 June 2012, the NHDT had outstanding receivables of \$1.8 million, an increase of \$715k from 30 June 2011. Of this amount \$857k was due from Government. The remaining \$938K related to outstanding rental and mortgage payments, which equates to over a year’s worth of revenues from this source. Of the \$938k, \$862K or 92% were more than 90 days past due. There has been a continuous rise in the amount of uncollected accounts, with the net realizable value of rental and mortgage receivables plummeting to 8%. Revenue from these sources is vital for the NHDT’s continuous operation and sustainability. However, collection of these revenues remains a major challenge.
71. On the basis of the current business model it is not clear how the Trust will be financially viable in the foreseeable future without further significant financial support from Government.

72. The Port Authority's financial performance over the last three years has shown improvement, moving from a significant deficit position in the year ending 30 June 2010 to a net income of over \$0.5m for the year ending 30 June 2012. During this period, PACI has generated increased revenues, mainly due to increased fee levels whilst also reducing its expenses.
73. However despite the positive position in respect of its operating performance PACI continued to have liquidity issues, as significant resources continue to be consumed in financing capital investments and meeting long term debt obligations. Whilst for the year ending 30 June 2012 PACI reported a positive cash flow and improved cash position, this has only been achieved at the expense of increased current liabilities, and if this is examined over a longer period of the last four years it is evident that there has been a significant decline in available capital. Exhibit 12 provides details of PACI's financial performance and position for the last three years.

**Exhibit 12 – Port Authority's Financial Performance and Position 2009-10 to 2011-12**

<b>Statement of Financial Performance</b>	<b>Year ending 30 June 2010</b>	<b>Year ending 30 June 2011</b>	<b>Year ending 30 June 2012</b>
Revenues	17,590,200	18,620,109	18,950,756
Expenses	19,446,617	18,205,935	18,401,758
<b>Net Income/(Loss)</b>	<b>(1,856,417)</b>	<b>414,174</b>	<b>548,998</b>
<b>Statement of Financial Position</b>			
	<b>As at 30 June 2010</b>	<b>As at 30 June 2011</b>	<b>As at 30 June 2012</b>
Current Assets	3,745,481	2,858,692	3,923,154
Current Liabilities	6,119,751	6,207,219	7,424,147
Current Ratio	0.62	0.46	0.53
Long Term Debt	10,757,006	8,527,565	6,392,295

74. As at 30 June 2012 PACI's current liabilities exceeded its current assets of \$3.9m by \$3.5m, equating to a current ratio was 0.53. This indicates that PACI does not have the current resources available to meet its current liabilities. Looking back to the position as at 30 June 2008, when it had a current ratio of 1.42 and was in a position to meet its liabilities, the more current situation shows a significant decline.
75. This condition, along with others disclosed in note 13 of PACI's financial statements, including reduced volume of business and limited room for increasing fees, raises concerns about PACI's ability to continue operating in the future without support from the Government, particularly if the volume of business continues on a downward trajectory. However, it should be noted that the long term debt obligations, for which it currently pays over \$2m annually, will be fully paid down by August 2015.

76. Exhibit 13 provides details of the performance of the Pensions Board and pension funds

**Exhibit 13 – PSPB Financial Performance and Position 2009-10 to 2011-12**

<b>Statement of Accumulated Plan Benefits</b>	<b>As at 30 June 2010</b>	<b>As at 30 June 2011</b>	<b>As at 30 June 2012</b>
Accumulated Plan Benefits – Actuarial Valuation	456,329,000	494,849,000	494,849,000
Net Assets Available	281,397,000	340,782,000	356,298,000
<b>Fund Deficit</b>	<b>(174,932,000)</b>	<b>(154,067,000)</b>	<b>(138,551,000)</b>
<b>Statement of Changes to Net Assets Available for Benefits</b>	<b>Year ending 30 June 2010</b>	<b>Year ending 30 June 2011</b>	<b>Year ending 30 June 2012</b>
Contributions	29,497,000	29,485,000	29,631,000
Benefits Paid to Participants	26,535,000	27,066,000	29,971,000
<b>Net Pensions</b>	<b>2,962,000</b>	<b>2,419,000</b>	<b>(340,000)</b>
Investment Income	35,749,000	65,227,000	21,270,000
Investment Expenses	2,224,000	2,445,000	2,744,000
<b>Net Investment Income</b>	<b>33,525,000</b>	<b>62,782,000</b>	<b>18,526,000</b>
Operating Income	819,000	554,000	128,000
Operating Expenses	3,867,000	3,035,000	3,050,000
<b>Net Operating Loss</b>	<b>(3,048,000)</b>	<b>(2,481,000)</b>	<b>(2,922,000)</b>
<b>NET INCREASE IN ASSETS</b>	<b>33,439,000</b>	<b>62,720,000</b>	<b>15,263,000</b>

77. Exhibit 13 shows that whilst still very significant, the fund deficit has decreased over the last three years, largely due to the performance of the plan's investments. However based on the 2011 actuarial valuation reports, the actuary has determined that a continuation of the current level of contributions to the defined benefit plan (close to 12% of salaries) is projected to result in the depletion of the fund by the year 2026. He also determined that under the current contribution rates, the total plan annual contributions (including contributions for both the defined benefit and defined contribution schemes) will be insufficient to meet annual benefit payments and expenses by 2013. As indicated in Exhibit 13 this position was reached for the year ending 30 June 2012 with benefits paid out exceeding contributions received by \$340,000.

78. The actuary further stated that the parliamentary pensions plan continues to be severely underfunded. Assets allocated to this plan cover only 22% of the past service obligations. The plan's assets are also insufficient to cover the benefits currently being paid. Without any future contributions, the assets are sufficient to cover only three years of current benefit payments.

79. Exhibit 14 provides details of the valuations provided by the actuary for the three pension plans as at 1 January 2011 (the date of the last valuation). It indicates that the contribution rates for the defined benefit elements of the Public Service and Parliamentary plans would need to be increased from the current contribution rate of 12% of emoluments, to 44.23% and 119.15% respectively to meet the future plan benefits and expenses.

**Exhibit 14 – Actuarial Valuation of Pension Plans**

<b>Actuarial Valuation</b>	<b>Public Service Pension Plan \$000's</b>	<b>Parliamentarian Pension Plan \$000's</b>	<b>Judicial Pension Plan \$000's</b>
Value of pension fund allocated assets	309,868	3,809	2,846
Past service liability	(475,728)	(16,722)	(2,399)
<b>Fund Surplus/(Deficiency)</b>	<b>(165,860)</b>	<b>(12,913)</b>	<b>447</b>
Required Contribution Rate	44.23%	119.15%	10.76%

80. Notes 13 and 14 to the financial statements describe that the 2011 and 2008 actuarial valuation reports which were completed on April 2012 and March 2009 and submitted to the Financial Secretary on April 2012 and April 2009 respectively, had not been accepted and approved by Cabinet when the financial statements were completed. Therefore, both contributions received and contributions receivable are reflective of the 2005 actuarial valuation report when the rates of contribution were last approved.

81. During 2011-12, we also observed trends in the financial statements that have an adverse impact on the funds' cash flows. These include the growing amount of annual benefits paid to participants; static movement of contributions; and no output funding received from Government.

82. The PSPB may experience cash flow difficulties if this pattern continues for the next few years. In addition to these scenarios, there are other looming concerns which may create problems for the current contributions to meet the annual benefits payments and expenses. These include the potential approval of an early retirement programme for Civil Service employees, increased participants cashing out and additional pensioners during the coming years.

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TOURISM ATTRACTION BOARD (TAB)

83. Exhibit 15 provides details of TAB's financial performance for the last three years.

**Exhibit 15 –TAB Financial Performance and Position 2009-10 to 2011-12**

<b>Statement of Financial Performance</b>	<b>Year ending 30 June 2010</b>	<b>Year ending 30 June 2011</b>	<b>Year ending 30 June 2012</b>
Revenues	814,955	952,221	970,122
Government Output Funding	2,169,556	2,208,025	2,090,591
<b>Total Revenues</b>	<b>2,984,511</b>	<b>3,160,246</b>	<b>3,060,713</b>
Expenses	2,755,030	2,832,136	3,002,733
<b>Net Income</b>	<b>229,481</b>	<b>328,110</b>	<b>57,980</b>

84. The TAB is heavily dependent on funding from Government for operating Pirates Week, Pedro St James, the Queen Elizabeth Botanic Park and Hell. Whilst it has reported a surplus in each of the last three years, it has received on average around \$2.15m through funding from Government which is nearly 80% of its revenues.

85. Over the three years it has shown modest growth in the revenues generated through its operations of just over \$156,000 (19%). However at the same time it has seen its expenses increase by nearly \$248,000 (9%). This increase in expenses along with a modest decrease in the Government subsidy over the same period has contributed to significant decline in the net income reported by TAB compared to prior years.

86. With respect to the financial position, the TAB has sufficient assets to meet its current liabilities. However if the Government were to discontinue providing its annual funding, the TAB would no longer be able to operate.

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UNIVERSITY COLLEGE OF THE CAYMAN ISLANDS (UCCI)

87. The UCCI reported a surplus for the first time in a number of years for the year ending 30 June 2012. The most significant factor in achieving this was a large decrease in expenses of \$0.934m over the last three years, or approximately 12% of its operating costs. The largest element that has contributed to this decrease is a reduction in staff costs of around \$0.5m. Exhibit 16 provides details of UCCI's financial performance for the last three years and specific information on its financial position.

**Exhibit 16 – UCCI’s Financial Performance and Position 2009-10 to 2011-12**

<b>Statement of Financial Performance</b>	<b>Year ending 30 June 2010</b>	<b>Year ending 30 June 2011</b>	<b>Year ending 30 June 2012</b>
Revenues	3,342,733	3,033,592	3,159,555
Government Output payments	3,924,982	4,048,383	4,231,440
<b>Total Revenues</b>	<b>7,267,715</b>	<b>7,081,975</b>	<b>7,390,995</b>
Expenses	7,879,821	8,058,809	6,945,896
<b>Net Income/(Loss)</b>	<b>(612,106)</b>	<b>(976,834)</b>	<b>445,099</b>
<b>Statement of Financial Position</b>			
	<b>As at 30 June 2010</b>	<b>As at 30 June 2011</b>	<b>As at 30 June 2012</b>
Shareholder Equity	3,706,706	2,949,495	3,395,016
Accumulated Deficit	(981,996)	(1,639,707)	(1,155,608)
Current Assets	1,664,814	1,079,934	1,333,547
Current Liabilities	1,814,233	1,576,276	1,436,611
Current Ratio	0.92	0.69	0.93

88. The subsidy provided by the Government for the year ending 30 June 2012 was \$4.2m, which has increased by approximately \$0.3m over the last three years. However this increase in Government subsidy has been in a period when revenues from other sources, such as tuition fees, have shown a decline of \$0.18m.
89. The UCCI continues to operate under financial strain. Its financial position for the year ending 30 June 2012 indicates that it has a current ratio of 0.93, in other words it does not have sufficient resources to meet its current liabilities. During this period, it has not been able to meet the repayments for its Government vested long term loan of \$1.2m for the year ending 30 June 2012 and at least the prior two years.
90. It also had challenges in collecting its accounts receivable, in particular for tuition fees, with receivables outstanding for more than 90 days having reached \$0.78m as at 30 June 2012, although a large portion (\$0.75m) has been provided for.
91. As UCCI is prevented by Government policy from increasing tuition fees, its main source of revenue outside of direct support from Government, and it has already made robust cuts to its costs, UCCI will face real challenges in remaining financially viable. Its financial position makes it clear that it will be challenging for UCCI to continue operating in the future without ongoing and further support from Government, and/or a change in its business model.

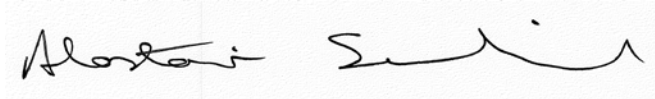


## CONCLUSION

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92. This report provides information from our financial audits of the statutory authorities and government companies of the Cayman Islands Government for 2011-12, and also provides some high level commentary on the results reported by the entities.
93. Whilst I continue to see improvements in the quality and timeliness of the financial statements for the SAGCs, there is still work required to ensure the effective stewardship of, and accountability for, public resources. I have also reported on some significant issues about the operations of statutory authorities and government companies that need to be addressed. In particular I have concerns about:
- the governance arrangements in a number of entities and the impact on the effective management and stewardship of public resources;
  - the design and implementation of proper internal controls and practices to protect public resources from being abused;
  - the capacity of some of the smaller entities to implement effective financial management, governance and internal control arrangements, and as a result their ability to present reliable and credible financial statements;
  - delays in tabling entity reports and making results public, thereby hindering transparency in the use of public funds and scrutiny by legislators and the people of the Cayman Islands; and
  - the financial strain that a number of entities face, impacting on their ability to operate effectively without changes in operations, business restructuring or ongoing and further Government support
94. There remains considerable room for improvement in the governance, internal controls and financial management of a number of entities. Senior management officials in statutory authorities and government companies are responsible for the financial management of their entities and putting in place control systems to enable the effective stewardship of public resources and protect them from waste and abuse. Given the levels of funding from Core Government, the financial strain which a number of entities are under and the overriding need to extract as much value from the public purse as possible, senior management of these entities need to ensure that appropriate systems are in place to protect public funds and mitigate the significant risks of waste and abuse, and provide information that would enable effective decision-making and accountability by governors and the Legislative Assembly.

95. The matters I have raised in this report are significant and, if not addressed, could hinder the Government's ability to deliver its programs and services. I believe the Legislative Assembly should hold senior officials to account for these matters and ensure that the necessary actions are taken to protect public resources from the risks of waste and loss.

A handwritten signature in black ink, appearing to read 'Alastair Swarbrick', written on a light-colored, textured background.

*Alastair Swarbrick MA(Hons), CPFA  
Auditor General  
George Town, Grand Cayman  
Cayman Islands*

*29 September 2014*

## APPENDIX A –STATUS OF THE 2011-12 AUDITS

Entity	Date Audit Completed or Progress	Audit Opinion	Tabled in the Legislative Assembly
Cayman Airways Limited	17 May 2013	Unqualified	11 Dec 2013
Cayman Islands Airport Authority	29 September 2014	Qualified	
Cayman Islands Development Bank	26 June 2013	Unqualified	18 Nov 2013
Cayman Islands Monetary Authority	31 October 2012	Unqualified	14 March 2013
Cayman Islands National Museum	15 August 2013	Qualified	
Cayman National Cultural Foundation	31 October 2013	Unqualified	
Cayman Islands Stock Exchange	5 November 2012	Unqualified	15 March 2013
Cayman Turtle Farm (1983) Ltd.	23 October 2012	Qualified	26 March 2013
Children & Youth Services Foundation	In progress		
CINICO	7 October 2013	Unqualified	
Civil Aviation Authority	30 October 2012	Qualified	13 March 2013
Electricity Regulatory Authority	31 October 2012	Unqualified	
Health Services Authority	28 May 2014	Qualified	
Information and Communications Technology Authority	19 October 2012	Unqualified	
Maritime Authority of the Cayman Islands	31 October 2012	Unqualified	13 March 2013
National Drug Council	31 October 2012	Unqualified	
National Gallery of the Cayman Islands	31 October 2012	Qualified	13 March 2013
National Housing Development Trust	30 January 2014	Unqualified	11 September 2014
National Roads Authority	25 October 2012	Unqualified	4 Sept 2013
Port Authority of the Cayman Islands	10 December 2012	Qualified	14 March 2013
Public Service Pensions Board	9 July 2013	Qualified	
Segregated Insurance Fund	31 October 2012	Unqualified	11 Dec 2013
Sister Islands Affordable Housing Development Corporation	4 April 2014	Disclaimed	
Tourism Attractions Board	7 January 2014	Qualified	25 June 2014
University College of the Cayman Islands	31 October 2012	Unqualified	15 March 2013
Water Authority of the Cayman Islands	31 October 2012	Qualified	28 February 2014

## APPENDIX B - AUDIT OPINION DEFINITIONS

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The opinions that I can render on an entity's financial statements and their definitions are as follows:

- **Unqualified** - The information contained within the financial statements can be relied upon;
- **Qualified** - A qualified opinion means that a portion of the financial statements cannot be relied upon, but that the rest of the statements can be relied upon by the reader;
- **Adverse** - There are such significant deficiencies with the information in the financial statements they should be considered unreliable for the user and the information contained therein is not trustworthy; and
- **Disclaimer** - I was not provided with sufficient information to conduct an audit.

## APPENDIX C – SUPPORTING FINANCIAL ANALYSIS

### STATEMENT OF FINANCIAL POSITION

Table 1: Key Balances and Ratio as at 30 June 2012

Entity	Net Current Assets	Current Ratio	Net Total Assets	Equity Injections	Non-Current Debt/Loans
Cayman Airways Limited	(49,759,749)	0.05	(57,714,481)	5,100,000	24,529,249
Cayman Islands Airport Authority	28,062,194	7.19	58,052,633	0	463,281
Cayman Islands Development Bank	4,573,578	4.44	3,335,390	0	37,219,976
Cayman Islands Monetary Authority	133,000	1.00	22,776,000	0	0
Cayman Islands National Museum	290,313	2.15	2,950,058	0	0
Cayman National Cultural Foundation	(81,258)	0.76	4,639,624	0	0
Cayman Islands Stock Exchange	1,728,033	9.97	1,746,579	0	0
Cayman Turtle Farm (1983) Ltd.	(11,020,358)	0.24	(3,764,588)	9,669,418	26,728,227
Children & Youth Services Foundation	886,569	69.09	932,909	0	0
CINICO	4,373,388	1.37	6,826,693	0	0
Civil Aviation Authority	6,948,377	4.01	6,478,548	0	0
Electricity Regulatory Authority	1,003,829	6.79	1,013,444	0	0
Health Services Authority	16,745,823	2.42	79,605,236	0	2,093,396
Information and Communications Technology Authority	1,700,114	11.76	1,775,344	0	0
Maritime Authority of the Cayman Islands	2,545,671	4.53	2,607,272	0	0
National Drug Council	202,440	3.62	216,382	0	0
National Gallery of the Cayman Islands	308,995	12.79	3,273,175	0	0
National Housing Development Trust	3,520,000	3.59	(885,000)	5,067,000	19,362,000
National Roads Authority	2,279,344	2.19	3,909,542	0	0
Port Authority of the Cayman Islands	(3,500,993)	0.53	39,871,719	0	6,392,295
Sister Islands Affordable Housing Development Corporation	965,000	7.15	1,600,000	0	0
Tourism Attractions Board	992,330	3.30	13,254,243	0	0
University College of the Cayman Islands	(103,064)	0.93	3,395,016	0	2,522,335
Water Authority of the Cayman Islands	3,092,539	1.42	58,904,586	0	15,446,234
				<b>19,836,418</b>	<b>134,756,993</b>

## STATEMENT OF FINANCIAL PERFORMANCE

Tables 2 to 4 present details of individual SAGCs reported results over the three years 2009-10 to 2011-12. In examining the results readers should bear in mind the caveats highlighted in paragraph 35 of the **MAIN REPORT**

**Table 2: Net Profit/Loss or Surplus/Deficit reported by SAGCs over the three years 2009-10 to 2011-12**

Year Ending	30-Jun-10	30-Jun-11	30-Jun-12
Cayman Airways Limited	(10,438,552)	(4,865,745)	(4,348,672)
Cayman Islands Airport Authority	5,827,980	5,914,447	4,059,827
Cayman Islands Development Bank	(701,160)	(777,664)	(766,880)
Cayman Islands Monetary Authority	189,000	814,000	114,000
Cayman Islands National Museum	(292,981)*		(761,240)**
Cayman National Cultural Foundation	(174,100)	(215,514)	(202,195)
Cayman Islands Stock Exchange	164,573	382,052	405,925
Cayman Turtle Farm (1983) Ltd.	(8,350,801)	(7,963,705)	(8,134,494)
Children & Youth Services Foundation	57,797	13,316	113,011
CINICO	3,505,939	(3,042,574)	(2,635,890)
Civil Aviation Authority	1,649,237	1,864,047	2,033,328
Electricity Regulatory Authority	318,358	326,602	480,187
Health Services Authority	6,240,213	(244,111)	(4,609,703)
Information and Communications Technology Authority	(61,691)	19,603	232,883
Maritime Authority of the Cayman Islands	(272,631)	(133,897)	(156,452)
National Drug Council	(987)	49,523	14,664
National Gallery of the Cayman Islands	148,537	455,096	339,124
National Housing Development Trust	(4,103,909)	(1,461,694)	(1,394,000)
National Roads Authority	(649,705)	(614,674)	(4,169)
Port Authority of the Cayman Islands	(1,856,417)	414,174	548,998
Sister Islands Affordable Housing Development Corporation	(85,000)	27,000	5,000
Tourism Attractions Board <sup>1</sup>	229,481	328,110	57,980
University College of the Cayman Islands	(612,106)	(976,834)	445,099
Water Authority of the Cayman Islands	3,438,101	3,474,487	1,423,925
<b>Total</b>	<b>(5,830,824)</b>	<b>(6,213,955)</b>	<b>(12,739,744)</b>

\* Results for the three years ending 30 June 2010 \*\* Results for the two years ending 30 June 2012

**Table 3: Expenses reported over the three years 2009-10 to 2011-12**

<b>Year Ending</b>	<b>30-Jun-10</b>	<b>30-Jun-11</b>	<b>30-Jun-12</b>
Cayman Airways Limited	66,849,044	67,668,088	72,397,116
Cayman Islands Airport Authority	18,267,222	17,823,823	20,065,478
Cayman Islands Development Bank	3,970,632	3,860,538	3,835,230
Cayman Islands Monetary Authority	16,913,000	17,673,000	18,296,000
Cayman Islands National Museum	3,003,751*		2,387,528**
Cayman National Cultural Foundation	993,255	1,033,502	954,408
Cayman Islands Stock Exchange	1,319,689	1,090,731	1,269,303
Cayman Turtle Farm (1983) Ltd.	14,344,057	13,178,107	13,745,366
Children & Youth Services Foundation	2,153,005	1,946,896	2,153,266
CINICO	47,089,907	52,571,217	57,510,677
Civil Aviation Authority	3,170,405	2,944,304	3,573,087
Electricity Regulatory Authority	474,932	535,557	596,883
Health Services Authority	77,765,015	83,712,158	90,307,001
Information and Communications Technology Authority	1,601,749	1,546,550	1,440,946
Maritime Authority of the Cayman Islands	8,691,175	9,145,349	9,139,968
National Drug Council	494,158	452,161	451,831
National Gallery of the Cayman Islands	485,795	545,976	750,991
National Housing Development Trust	5,557,437	2,805,791	2,671,000
National Roads Authority	11,652,414	12,597,888	11,272,896
Port Authority of the Cayman Islands	19,446,617	18,205,935	18,401,758
Sister Islands Affordable Housing Development Corporation	565,000	59,000	75,000
Tourism Attractions Board	2,755,030	2,832,136	3,002,733
University College of the Cayman Islands	7,879,821	8,058,809	6,945,896
Water Authority of the Cayman Islands	23,525,526	23,926,272	25,992,541
<b>Total</b>	<b>338,968,636</b>	<b>344,213,788</b>	<b>367,236,903</b>

\* Results for the three years ending 30 June 2010    \*\* Results for the two years ending 30 June 2012

**Table 4: Output revenue from Government sources reported over the three years 2009-10 to 2011-12**

<b>Year Ending</b>	<b>30-Jun-10</b>	<b>30-Jun-11</b>	<b>30-Jun-12</b>
Cayman Airways Limited	10,500,000	15,000,000	15,770,000
Cayman Islands Airport Authority	0	0	0
Cayman Islands Development Bank	577,872	577,875	577,875
Cayman Islands Monetary Authority	15,750,000	16,850,000	17,350,000
Cayman Islands National Museum	2,410,255*		1,311,460**
Cayman National Cultural Foundation	691,915	617,840	579,655
Cayman Islands Stock Exchange	0	0	0
Cayman Turtle Farm (1983) Ltd.	0	0	0
Children & Youth Services Foundation	2,100,000	1,828,413	2,206,809
CINICO	19,927,842	21,030,540	22,639,738
Civil Aviation Authority	0	0	0
Electricity Regulatory Authority	67,061	37,017	120,000
Health Services Authority	29,251,105	28,904,429	24,806,045
Information and Communications Technology Authority	345,101	329,367	339,526
Maritime Authority of the Cayman Islands	1,271,654	1,280,652	1,093,942
National Drug Council	490,672	485,993	455,958
National Gallery of the Cayman Islands	481,000	450,000	422,000
National Housing Development Trust	589,696	550,111	658,000
National Roads Authority	9,856,382	11,665,918	10,940,790
Port Authority of the Cayman Islands	0	0	0
Sister Islands Affordable Housing Development Corporation	66,000	85,000	79,000
Tourism Attractions Board	2,169,556	2,208,025	2,090,591
University College of the Cayman Islands	3,924,982	4,048,383	4,231,440
Water Authority of the Cayman Islands	0	0	0
<b>Total</b>	<b>100,471,093</b>	<b>105,949,563</b>	<b>105,672,829</b>

\* Results for the three years ending 30 June 2010    \*\* Results for the two years ending 30 June 2012



## APPENDIX D – INDIVIDUAL ENTITY REPORTING

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1. This appendix provides details of the specific issues identified at the SAGCs through our audits. These are categorized under two headings:
  - **Audit Report:** Provides details of any qualifications or other matters included in the Audit Report (opinion) for each SAGC; and
  - **Governance Report:** Provides details of governance and internal control issues identified through our audit of the financial statements which were reported to those charged with governance in our ISA260 (Governance) Report. Not all the matters reported in the Governance Reports are included, only those that are considered more significant and of potential interest to the Public Accounts Committee.
2. If there is nothing reported under either of these headings for an entity this indicates that we have not identified any significant matters to report.
3. For two entities, our audits did not identify any issues that were significant enough to be reported. These were:
  - Cayman Islands Stock Exchange; and
  - Segregated Insurance Fund.
4. It should be noted that an audit of financial statements is designed to enable an opinion to be expressed on the financial statements, and it is not designed to identify all matters or deficiencies in the internal control environment of audited entities. Accordingly, our audits do not ordinarily identify all such matters and those matters which we report to the entities are only those which came to our attention as a result of the performance of our financial statement audit.

### CAYMAN AIRWAYS LTD.(CAL)

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#### AUDIT REPORT

5. Whilst I did not qualify my opinion on CAL's financial statements for the year ending 30 June 2012, I highlighted one matter for the attention of readers in my report regarding CAL's dependence on significant financial support from the Cayman Islands Government to enable it to continue operating in the future and to meet its obligations as they fall due.

6. The most significant issue we reported in our Governance Report was in respect of the **IT control environment and IT general controls**. For an entity with the size and complexity of CAL, we would expect that there be a comprehensive risk assessment done for the operations of its IT environment and that the risks identified are effectively managed and monitored on a regular basis. CAL has not done this. As a result; policies, procedures, and controls related to the IT control environment and IT general controls have either not been fully developed and implemented, or are not formalized and auditable. We identified multiple weaknesses in the IT control environment and IT general controls that could result in significant errors occurring in the processing of financial and non-financial transactions, the most significant of which are as follows:
- programming changes to information systems are not formally documented, properly tested, or approved by management prior to being implemented. This increases the risk that any programming changes could have a negative impact on system operations resulting in problems with data integrity; and
  - an appropriate segregation of duties has not been established for the development and operations of the IT systems. We found that in many cases, individuals were given access to IT systems that would increase the risk of fraudulent, inappropriate or unauthorised transactions being processed.
7. The failure to identify and manage IT risks and the resulting lack of IT policies, controls and procedures significantly increases the risk that the transactions processed and the data stored by information systems is inaccurate and unreliable. In addition, there is an increased risk of fraudulent transactions being processed by the entity or data being fraudulently manipulated.
8. A number of other specific internal control weaknesses across the financial transactions streams and cycles were identified, which indicated a general need to continue to improve the overall internal control environment. However we only wish to highlight one individual matter: three senior managers have "super-user" rights to the general ledger to enter and release Journal postings and there is no evidence of segregation of duties for Journal Entries procedures i.e. the system does not record who input journal, only who reviewed. This leads to heightened potential for management over-ride of controls.

### AUDIT REPORT

9. I qualified my opinion on CIAA as I was unable to confirm that the entity's financial statements contained the disclosure necessary to draw attention to the possibility that its financial position and financial performance may have been affected by the existence of **related parties transactions** due to the absence of related party representations by senior managers and the Board of Directors.

### GOVERNANCE REPORT

10. The most significant issues in our Governance Report to CIAA relate to failures in its governance framework, with political and Board involvement in operational matters, and conflicts of interests creating the risk that decisions were unduly influenced.
11. **Ministerial Direction:** On several occasions the Minister provided direction on operational matters beyond his lawful authority. Specifically he issued a directive to the CIAA stating the number and names of the ground handlers to be allowed to operate at Owen Roberts International Airport. There was no clear business case for this directive, it removed any form of effective competition and circumvented the procurement regulations, and the authority may not have achieved the best outcome financially. It should be noted that Board members of the Authority were principals of two of the entities involved.
12. **Role of the Board:** The CIAA's Board is responsible for the organization's operations and its results. Our expectation is that, in line with good governance practices, the Board would be responsible for assessing the risks of the organization, setting the strategic direction, approving plans and policies and providing effective oversight of the executive management and holding them to account. Executive management, on the other hand, should be responsible for the operational activities and report to the Board. We found instances where the Board was operating in a capacity beyond the oversight role described above.
13. A specific example was the summary termination of the former Financial Controller for gross negligence by the Board without any notice. The responsibility for the dismissal of staff members rests with the Chief Executive Officer and not the Board, and in line with CIAA's own policies normally follows a graduated disciplinary process, with the exception of gross misconduct, which allows employees to respond to allegations as well as appeal terminations after a number of steps.
14. **Conflicts of Interest:** Board members of the CIAA had conflicts of interest that were so pervasive that in our opinion had the potential to undermine the ability of the Board to operate in the best interest of CIAA and negatively impact its financial performance.

15. **Internal Audit:** A member of the Board was commissioned to undertake an audit of financial and other operational matters. The Board would be well within their rights to engage an independent auditor to undertake an independent internal or forensic audit in order to obtain assurance regarding the financial and operational aspects of the CIAA, but having a board member undertake this conflicts with their role as a Board member and raises concerns over the independence and objectivity of the audit.
16. Initially, we were informed by the Board in January 2013 that this audit was carried out at no cost to the CIAA. Apart from brief terms of reference there was no formal engagement letter or contract for this work. Subsequently at the Board meeting in May 2013 a resolution was passed to remunerate the Board member for the audit work undertaken. The total paid to the Board member was \$46,000 on the basis of the time she stated she had worked. In our opinion, the Board , circumvented good business practice, abused their authority and failed to ensure that they achieved value for money.
17. A number of other matters were also raised in our Governance Report. The most significant were:
- **Non Compliance with Procurement Regulations:** CIAA incurred \$392k in janitorial costs during the year. However the contract with the supplier expired in August 2008 and had not been renewed. Instead CIAA continued to operate on a month to month basis with the supplier. Apart from the risks from not having an appropriate contract in place, this is in direct contravention of the requirement to tender contracts for services over the prescribed thresholds set out in the Financial Regulations;
  - **Loans:** Since its inception, all loans outstanding for the construction of Owen Roberts International Airport have been serviced by the Government, with CIAA required to repay the Government under section 20 of the Airports Authority (2005) Law. CIAA has not made any repayments to Government for these loans, and the amount that is payable to Government continues to increase annually with the balance at 30 June 2012 standing at nearly \$3m;
  - **Petrol Throughput:** Fuel providers pay CIAA US\$0.18 per US gallon for fuel provided to airplanes at the airport. These fuel providers read their own meters, maintain all records and submit quarterly cheque payments along with details of petrol throughput to CIAA. CIAA relies on the fuel providers to supply them with the amount of aviation fuel sales, and does not undertake any validation or other procedures to ensure that it is receiving the appropriate revenue from the fuel providers, exposing it to the potential loss of revenue; and
  - **Leases:** A number of lease agreements relating to office/shop rentals at the Owen Roberts International Airport were not properly put in place, exposing CIAA to the risk of lost revenues.

### AUDIT REPORT

18. Whilst I did not qualify my opinion on CIDB's financial statements for the year ending 30 June 2012, I highlighted one matter for the attention of readers in my audit report regarding future debt obligations and its ability to operate in the future.
19. The financial statements indicate that CI\$30.5m of CIDB's debt becomes due and payable in 2015. In my opinion, this amount of debt due and payable will be a significant challenge for the Government to meet and puts at risk the ability for CIDB to operate after 2015.

### GOVERNANCE REPORT

20. In our Governance report we have reported a number of matters to the CIDB regarding the management of its debt portfolio including:
  - **Delinquency Rate:** The CIDB delinquency rate is extremely high. 224 (37%) out of a portfolio of 601 customer loans are over 90 days in arrears. The total arrears amounts to \$3.6M or 3.5 times the annual interest cost of funds;
  - **Loan Portfolio:** CIDB loan portfolio fell during the period as a result of a number of loans being closed out as customers transferred balances to other financial institutions with lower interest rates. Unfortunately most of these were loans in good standing and which had been serviced consistently;
  - **Dormant Accounts:** Dormant accounts (i.e. accounts with unchanged balance at the end of 2011 and 2012) increased 100% in 2012 from \$2.6M to \$5.3M (excluding student loans), representing approximately 12% of the total portfolio value and volume. This creates an increased risk of loss due to bad debt; and
  - **Restructured Loans:** 82% of all loans categorized as new loans (i.e. loans that did not exist at June 2011) were actually restructured loans with a value of \$2.6M. A large number of the restructured loans capitalized unpaid interest that would have otherwise been receivable.
21. The impact of our reported findings is an increased risk of loss to the CIDB due to challenges with the collection of debts from customers. The restructuring of a number of loans has attempted to tackle the rate of delinquency. However, if this is ineffective and there is a continuing loss of customers in good standing, the banks' ability to provide new lending will continue to be reduced, ultimately affecting its ability to carry out its primary function to mobilize, promote, facilitate and provide finance for the expansion and strengthening of economic development of the Cayman Islands.

## CAYMAN ISLANDS MONETARY AUTHORITY (CIMA)

### GOVERNANCE REPORT

22. In the Governance Report, we only raised one matter with respect to procedures in controllership and liquidation matters. CIMA engaged the services of a controller/liquidator to investigate and ultimately liquidate a licensee at an agreed cost not exceeding US\$ 120,000. CIMA paid the agreed cost but did not submit a Proof of Debt form thereby forfeiting any claim to recover the costs incurred from the assets of the licensee. As a regulator, CIMA is under no obligation to incur the cost of liquidation and this resulted in the use of the entity's resources in an area other than that agreed to in its purchase agreement.

## CAYMAN ISLANDS NATIONAL MUSEUM (CINM)

### AUDIT REPORT

23. CINM's financial statements for the two years ending 30 June 2012 were qualified as I was unable to confirm:

- the accuracy of the fixed assets recorded, accumulated depreciation and surplus as a result of a material adjustment caused by changing the system used for recording the fixed asset register; and
- the completeness of revenues recorded because CINM's cash receipts are not subject to controls that permit independent audit verification.

24. Without qualifying the opinion further, I also highlighted the following matters in the audit report:

- the CINM's dependence upon significant financial support from the Cayman Islands Government to enable it to continue to operate and to meet its obligations as they fall due;
- non-compliance with the requirements of the *Public Management and Finance Law (2012 Revision)*;
- the financial statements for the period ending 30 June 2012 were prepared for a two year period; and
- the comparative information for the period ending 30 June 2010 was unaudited due to a Disclaimer of Opinion being issued on the corresponding figures.

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## GOVERNANCE REPORT

25. We have reported a number of matters to CINM in our Governance Report which are indicative of generally poor accounting practices and a weak internal control environment. The most significant of these were:
- poor control and lack of supporting documentation for changes to the financial information (journal vouchers), increasing the risk of error or fraud;
  - lack of a complete and accurate fixed asset register;
  - lack of reconciliation of sub-systems to the general accounting ledger; and
  - significant issues in the presentation and preparation of the financial statements to comply with International Financial Reporting Standards.
26. During this period the CINM was in the process of changing its accounting system to enable improved financial management. However, during its implementation a number of issues arose which contributed to matters we identified.

## CAYMAN NATIONAL CULTURAL FOUNDATION (CNCF)

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## GOVERNANCE REPORT

27. We reported one matter in our Governance Report regarding the insurance premiums of \$248k paid by the Government on behalf of CNCF over the last three years. These are presently recorded as liabilities in the financial statements of CNCF at 30 June 2012. These payments are, in my opinion, capital contributions from Government according to the accounting standards, as there is no agreed schedule of repayment and CNCF does not have the ability to repay this obligation without additional support from Government.
28. Whilst the amount was not considered material as at 30 June 2012, and thus did not result in a qualified opinion, the liability is accumulating each year and is expected to become material by 30 June 2014.

### AUDIT REPORT

29. For the year ending 30 June 2012, the CTF's financial statements were qualified for the same three matters as in the previous year. These were:

- due to the nature, size and complexity of the CTF's property, plant, equipment and exhibits, management could not estimate whether there was any indication of impairment (i.e. subject to loss or devaluation) to be recorded in the financial statements as required by International Financial Reporting Standards;
- the statement of financial position at 30 June 2012 includes an amount for pensions payable of CI\$1,248,000. This amount is based on the 30 June 2009 estimate provided by the actuary at the Public Service Pensions Board. In the absence of an actuarial valuation as at 30 June 2012, I was unable to opine on the amount for pensions payable in the financial statements.
- from 2007 to 2012, the Cayman Islands Government, has paid insurance premiums on behalf of CTF in the amount of CI\$5.1 million which are recorded as liabilities in the financial statements at 30 June 2012. These payments are, in my opinion, capital contributions from Government according to the accounting standards, as there is no agreed schedule of repayment and CTF does not have the ability to repay this obligation.

30. A matter of emphasis was also included regarding the CTF's ability to continue to operate, because without the ongoing financial support of the Cayman Islands Government the CTF would not be able to meet its liabilities as they fall due.

### GOVERNANCE REPORT

31. The CTF has made significant strides in the last few years to improve its control environment and financial management. We reported a few matters to those charged with governance and the most significant were:

- **Discharge Permit:** the CTF was operating for the period prior to 1 October 2008 and after 1 October 2010 without a required discharge permit from the Water Authority, and had failed to meet the reductions to its effluent discharge required;
- **Asset Register:** the CTF does not maintain a complete and accurate register of assets held increasing the exposure of the assets to theft and fraud, and the risk of error in the financial statements;
- **Title Deeds:** the title deed to a plot of land was not in the name of the CTF, but was still in the name of the "Crown". While it is a technicality as CTF is 100% owned by the Cayman Islands Government, legally CTF has no title to the assets and therefore, should not have the assets recorded in its financial statements; and



- **Loan Advance from Government:** interest free loan advances were received from the Government, repayable five years after the date the Facility became fully operational. The CTF is unlikely to be in a position to repay the loan to its shareholder within the required timeline due to its financial position and as such the substance of the loan is deemed to be an equity contribution.

## CAYMAN ISLANDS NATIONAL INSURANCE COMPANY (CINICO)

### GOVERNANCE REPORT

32. We reported a few internal control issues in our Governance report. The only one I wish to highlight is the lateness in submission of eligibility file data by government departments to CINICO and significant deficiencies in the data provided, requiring significant adjustments to prior year financial data and increasing the risk of material misstatements on the financial statements. This issue is largely out with the control of CINICO, also required retroactive assessment of premiums and billings.

## CHILDREN & YOUTH SERVICES FOUNDATION (CAYS)

33. At the date of this report, CAYS' financial statements for the year ending 30 June 2012 are still being audited. I have issued audit reports on the financial statements up to 30 June 2011, which have been qualified for all of the last seven years. For 2011 I qualified the financial statements in respect of revenues. CAYS derives a significant portion of its revenues from various sources (donations) and I was not able to confirm the completeness of the revenues recorded. I expect this issue to impact on the audit report for the year ending 30 June 2012 as well.

## CIVIL AVIATION AUTHORITY (CAA)

### AUDIT REPORT

34. The opinion of the CAA was qualified as I was unable to determine whether the amount reported as a past service pension liability was fairly stated. At the time of reporting, the management of CAA were discussing their understanding of the particulars supporting the 30 June 2011 valuation recommended by the actuary as they were not confident with the supporting information used to prepare the report. As a result they opted not to record the recommended liability of \$1,020,000 until the issue had been resolved. The impact of recording the recommended liability would effectively reduce CAA's profits and equity reported by \$387,543 and allow for a corresponding increase in the pension liabilities. As a result I was also unable to determine whether the net worth at 30 June 2012 was fairly stated.

35. The opinion was also qualified for the potential lack of disclosure of related party transactions due to the absence of related party representations from the Board of Directors.

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## GOVERNANCE REPORT

36. We included a number of matters in our Governance Report, where the governance framework of the CAA required to be strengthened. In particular there was evidence of a breakdown in the relationship between the board and senior management which clearly lead to difficulties in the oversight and management of the CAA. For example, the Board and management had differing interpretations regarding the approved budget, which included a cost of living pay award of 7%. The approved budget was deemed as approval for a pay increase by management whereas the Board felt that this did not provide specific authority for the pay increase. The Board approved a pay award of 4%, but this was after management had implemented a 7% pay increase. This led to a decline in the relationship between the Board and Management and a breakdown in the governance of the CAA with the actions ultimately leading both parties to obtain separate legal advice.

37. The governance issues that we identified for improvement included:

- clarification of the roles and responsibilities of the Board, Chairperson and senior management;
- the responsibility and role of each party in approving policy and policy amendments, including areas such as HR and administrative policies; and
- strengthening the budget approval process.

38. During the audit, we also identified a number of human resources policy related issues which impacted the effective governance of the CAA. We found issues with the clarity of policies; and the implementation, consistent application and compliance with CAA's policies. The CAA has subsequently addressed these matters.

## ELECTRICITY REGULATORY AUTHORITY (ERA)

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### GOVERNANCE REPORT

39. The biggest challenge faced by the ERA in ensuring that it has a sound control environment considering its size and small number of staff. This makes it challenging to have effective segregation of duties and mitigate the risks of management override. We reported a number of matters in our Governance Report including:

- cheques were not written in sequential order creating increased risks of inappropriate use of ERA funds;
- there was no evidence of any formal approval, review or sign-off of annual leave taken by staff during the year;

- we observed that certain IT equipment such as computers listed in the fixed asset register still do not have a unique identification number physically tagged to the items and on the registry; and
- during the year we noted that the Deputy Managing Director received a salary raise of approximately 5% in November 2011. We were unable to obtain valid support during the course of the audit that the raise was approved by the Board. We were subsequently informed that it was approved at a Board meeting, although not formally documented, and we received a letter from the new Managing Director in October 2012 substantiating the raise given in November 2011.

## HEALTH SERVICES AUTHORITY (HSA)

### AUDIT REPORT

40. For the year ended 30 June 2012, I issued a qualified opinion on the financial statements. I identified four areas of concern in my opinion. I was unable to:

- satisfy myself that the reported patient services fees of \$71.2 million and associated accounts receivable were complete. Management and the Board represented to me that the controls set-up to ensure completeness of patient revenues were not effective to provide sufficient evidence that reported revenues were complete;
- satisfy myself of the accuracy, existence and valuation of inventory as at 30 June 2012. The inventory listing had significant differences from what my staff had verified during the year-end inventory count, and I was unable to carry out other procedures to satisfy myself that this listing was an accurate reflection of the inventory; and
- determine the accuracy of the accumulated deficit as reported in the Statement of Financial Position and the Statement of Changes in Net Worth due to significant issues in prior years which resulted in the issuance of disclaimers of audit opinion.

41. Without further qualifying my opinion, I also highlighted two further matters in the audit report which we considered important to the readers of the financial statements. Note 22 to the financial statements describes the uncertainty of the valuation related to the HSA's post-employment health benefits. Starting in April 2010, the HSA has been paying the medical expenses for employees who retired and whose medical coverage was dropped by the Portfolio of the Civil Service (POCS). The continued payment of these medical bills constitutes a constructive obligation whereby the HSA may be liable for future medical bills of these retirees even though there is no decision by Government as to who should be liable for their medical costs. There has been no liability estimated or recognized in the financial statements. Given the potential significance of this liability and its impact on the future operations of the HSA, I believe a policy should be approved in order to report an accurate liability in the financial statements.

42. The HSA reported a loss for the year of \$4.6m. During the year HSA wrote off revenues amounting to \$5.2m for services provided to under/un-insured children and indigent persons. Under the PMFL, the HSA is only allowed to provide outputs for which the purchaser, the Ministry of Health, has agreed to pay the full cost. However the cost of services provided exceeded the Ministry of Health's budget and the Ministry directed the HSA to continue to provide these services and absorb the additional costs.
43. Apart from non-compliance with the PMFL the directive for the HSA to absorb the costs undermines, the Legislative Assembly's authorization to incur expenditure under the Appropriations Law, and public accountability for the true cost of providing these services. Ultimately, requiring HSA to incur these expenditures was a key factor for the reported loss for the financial year.

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## GOVERNANCE REPORT

44. We reported a significant number of matters in our Governance Report. The key matters were:
- **Significant write offs of patient receivables and allowances for bad debts:** We noted that the HSA wrote off \$13.66M in 2011-12. Allowances for bad debts as of 30 June 2012 stood at \$29.9M or 75% of gross accounts receivable as of that date. This impacts the HSA's cash flows and its ability to meet current obligations is threatened if it cannot recover its outstanding receivables;
  - **Lack of compliance with tendering regulations:** Section 37 of the Financial Regulations requires all that contracts for purchase of goods or services or assets over \$50,000 be offered for public tender unless such requirement is waived in 'exceptional circumstances'. We noted three instances where consultants were hired in breach of this requirement which totaled approximately \$457,000;
  - **Lack of adequate cash reserve:** Sections 7(1) and 18(3c) of the HSA Law requires a cash reserve at a level no less than estimated expenses for 90 days. As at 30 June 2012, we estimated that the HSA is over \$13m short in meeting this stipulation. Therefore, the HSA was not in compliance with the Law;
  - **Inventory management:** The HSA does not maintain perpetual inventory records for various units such as the Pharmacy, District Clinics, Faith Hospital, Eye Clinic and others. Lack of a perpetual inventory system increases the possibility of misappropriation as detection of any variances between actual physical stock on-hand and expected balances cannot be detected in a timely manner. Given that inventory accounted for approximately \$7,000,000 as at 30 June 2012 and supplies and materials expenses \$10,666,000, it is reasonably expected that a proper inventory system be in place which would provide significant efficiencies in inventory management and improved controls; and

- **Stand-by allowance increase to physicians and general pay rise of 6% for physicians:** The Board procured the services of consultant to review the pay and performance structure for its physicians. The recommendation led to an approval for higher stand-by allowances to the physicians (increased from \$1,500 to \$2,000 per month) as well as a general pay rise of 6% for physicians. Further, an incentive based pay was to be launched in 2013 whereby doctors would have their pay pegged to hospital revenues leading to increased risk of revenue overstatement and fraud unless managed effectively.

## INFORMATION COMMUNICATION AND TECHNOLOGY AUTHORITY (ICTA)

### GOVERNANCE REPORT

45. We included some relatively insignificant matters in our Governance Report except for non-compliance with licensee fee regulations. ICTA regulations state that a licensee shall deliver full audited financial statements to the ICTA within three months of the end of the licensee financial year. We found that only six of the fifteen (40%) licensees submitted this information to ICTA. Failure of the licensees to deliver audited financial statements in the stipulated time is in contravention to the terms and conditions of their licenses. Without audited financial statements from the licensees, ICTA was unable to determine whether it was receiving appropriate license fees due to them and Government for royalty fees.

## MARITIME AUTHORITY OF THE CAYMAN ISLANDS (MACI)

### AUDIT REPORT

46. Whilst I did not qualify the opinion of MACI, the audit report highlighted two other matters; the significant reduction in revenue from Government and a contingent liability related to MACI's operations in the United Kingdom.
47. **Revenue from Government:** Subsequent to the year-end, MACI received confirmation of its approved purchase agreement with Government for the 2012/13 fiscal year. The agreement approved by the Legislative Assembly decreased the revenues that MACI receives from nearly \$1.1m for the year ending 30 June 2012 to \$134k in for the year ending 30 June 2013, a decrease of approximately 87%. This is a large decrease of revenue for MACI and which will have a major impact on MACI's future financial performance.
48. **Contingent Liability:** I also indicated that there is continuing uncertainty as to whether the MACI UK operations might be required to pay either corporation tax on any operating surpluses and/or VAT on services provided. This is based on a United Kingdom law requiring all foreign Governments that have revenue generating enterprises operating in the UK to pay corporation tax. If enforced, MACI could be liable for significant corporate taxes on its United Kingdom operations. I have informed

them that this matter needs to be resolved as quickly as possible in order for proper disclosure to be provided to the readers of the financial statements.

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## GOVERNANCE REPORT

49. We identified a number of significant issues in our Governance Report. Apart from the potential liability relating to the MACI UK operations, other matters included the need for improved foreign exchange management, accounting system enhancements, strengthened general financial controls and the formalization or strengthening of a number of operational policies.
50. We also recommended a number of improvements to the quality of financial information and analysis provided to the Board for oversight and decision making. The information is required for senior management to identify strengths and weaknesses in MACI's business model and respond to risks in the achievement of its strategic objectives. This is particularly important in light of the significant decrease in future funding from Government and for the delivery of its services within the revenues it generates from other sources.
51. We also identified issues of non-compliance with *MACI Law (2008 Revision)*. Section (17) 1 states that *"The Authority shall maintain a level of cash reserves of an amount agreed with the Governor in the annual ownership agreement prepared in accordance with section 49 of the Public Management and Finance Law (2005 Revision)."* The ownership agreement for 2012 projected cash reserves of \$1.482m. However at 30 June 2012 MACI carried a cash balance of only \$900k. Included in this balance was restricted cash totaling approximately \$365k which represents funds held on account for third parties and funds collected on behalf of Government, which are payable to Government for first time registration of ships. Therefore, MACI was approximately \$947k below the budgeted cash levels after taking into account the restricted cash.

## NATIONAL DRUG COUNCIL (NDC)

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### GOVERNANCE REPORT

52. Due its size, scale and resources the NDC has had significant challenges in ensuring that it has a sound accounting and financial management function, along with a sound internal control environment. This led to significant issues in the ability of NDC to prepare their financial statements in a timely manner. As a result NDC hired a local firm in 2012 to assist in bringing the accounts up to date, prepare the financial statements, provide oversight of the financial function and segregation of duties, with the accounts for the years 2009 to 2012 all being signed off in October 2012.

53. In our Governance Report, we identified a number of governance and internal control issues including:

- **Control Environment:** the weaknesses found during the audit in the control environment exposed the NDC to the risk of error, fraud and the misuse of public funds. The lack of segregation of duties, poor controls over the collection and receipting of donations, the ease with which the accounting system could be manipulated, bank reconciliations not being carried out effectively and the level of access the former accountant had to the system created significant opportunity for fraud and errors to occur;
- **Fraud:** As a result of the poor control environment, a potential fraud of \$5.5k was identified. There were a number of red flags at the time indicating an increased risk of fraud. Management is responsible for mitigating the risks of fraud, which should include implementing fundamental controls to reduce the potential risk of fraud. At the time of the audit, management had commenced a review of the NDC's financial management systems and processes to enable the NDC to more effectively manage its finances;
- **Labour Dispute:** the NDC has had a long outstanding labour dispute with a former employee which has dragged on since 2007 and is still unresolved; and
- **Policies:** the NDC did not have adequate policies relating to certain aspects of staff management and remuneration, for example, for employees working additional time and accumulating Time off in Lieu (TOIL). The expense accrued from unpaid TOIL was material to the financial position of the entity.

## NATIONAL GALLERY OF THE CAYMAN ISLANDS (NGCI)

### AUDIT REPORT

54. The NGCI derives a significant portion of its revenue through cash receipts. My audit opinion was qualified as I was unable to determine the completeness of revenues recorded because cash receipts were not subject to the kind of controls that permit independent audit verification.

55. Without further qualifying my opinion, we also highlighted one other matter in my report in respect of compliance with the PMFL. While the PMFL requires the NGCI's financial statements to be prepared using International Public Sector Accounting Standards, the financial statements were prepared using International Financial Reporting Standards.

### AUDIT REPORT

56. Whilst we did not qualify the opinion, we highlighted concerns about procurement and the ongoing ability of the NHDT to meet its bond financing and sustain its operations.
57. **Procurement:** During 2011-12 the NHDT issued contracts totaling \$2.8 million for the construction of houses in Windsor Park, George Town. The NHDT issued 26 individual contracts with the work being shared between 18 different contractors. The *Financial Regulations* prescribe that any contract with a value of \$250,000 or more should be tendered through a tender committee in the entity and approved by the Central Tenders Committee. The entity avoided submitting the construction contracts through the Central Tenders Committee by breaking the project into multiple contracts resulting in the individual price of each contract coming in under the \$250,000 threshold.
58. The NHDT was unable to provide my auditors with an approved policy for carrying out the contracting on this basis, a documented method for awarding more than one contract to some contractors, and ensuring value for money was achieved. A policy was put in place and approved by Cabinet after the contracts had been awarded and subsequent to the audit year. Approval by Cabinet after the fact does not negate that the tendering process was not carried out in compliance with the laws and regulations.
59. **Continuing operations:** The NHDT obtained bonds in order to finance the development of the Affordable Housing Initiative program. The full amounts of these bonds (US\$29m) have been guaranteed by the Cayman Islands Government. The ability to meet its bond obligations and sustain its operations are reliant on continuing Government support including capital injections.

### GOVERNANCE REPORT

60. In our Governance Report, we identified a number of other governance and internal control issues including:
- **Governance Policy:** The NHDT needs to develop and define an oversight governance policy which would set forth the roles and responsibilities of the Board and management, and also its relationship with the related ministry in order to provide clarity about the responsibilities for managing and monitoring its operations and activities.
  - **Business Case on Selling, Lease and Lease to Own Programs for Affordable Housing:** There was no business case prepared prior to the Board making its decision on whether to sell, lease or lease to own within the Affordable Housing Program.
  - **Accounts Receivables:** As at 30 June 2012, the NHDT had outstanding receivables of \$1.8 million, an increase \$715k from the 30 June 2011. Of this amount \$857k is due from



Government. The remaining \$938k relates to outstanding rental and mortgage payments of which \$862k or 92% have been considered more than 90 days past due. There has been a continuous rise in uncollected accounts resulting in only an 8% net realizable value of rental and mortgage receivables. Revenue from these sources is vital for the NHDT's continuous operation and sustainability. However, collection of these revenues is a major challenge resulting in greater reliance on government funding

- **Segregation of duties:** We found that the same person prepares, reviews and approves the bank reconciliation statements. Likewise the same individual was responsible for taking cash receipts, making the deposits and accessing the accounting records. The lack of segregation of duties for these key activities unnecessarily increases the risk of employee fraud.

## NATIONAL ROADS AUTHORITY (NRA)

### GOVERNANCE REPORT

61. Our Governance Report included only a couple of matters. The only matter I wish to highlight is the lack of supporting contract documents. During the year, NRA entered into an arrangement with the Credit Union to pave their parking lot without a signed contract. The NRA went over its original time/material estimate in completing the project and as a result, billed the Credit Union for the actual hours/materials incurred. As a result of not having any contract to refer to, the NRA was only able to collect the original estimated amount to complete the project leading to \$8,800 being written off.

## PORT AUTHORITY OF THE CAYMAN ISLANDS (PACI)

### AUDIT REPORT

62. I qualified my opinion on the PACI's financial statements in respect of related party transactions. The PACI did not have systems and practices in place to identify, account for and disclose related party relationships and transactions for board members and senior management in order to comply with accounting standards and the principles of good governance.

63. Without further qualifying my opinion, I also highlighted two matters in my audit report that I considered important for the readers of the financial statements:

- non-compliance with the *Port Regulations (2011 Revision)*, as PACI was unable to charge tender fees totaling \$505,432 for the manifested cruise passengers as required by the Regulations due to an existing agreement with the FCCA which prohibits PACI from unilaterally increasing fees; and
- the ability of PACI to continue to operate. For the year ending 30 June 2012 PACI's current liabilities exceeded its current assets by \$3,848,923. This condition along with other matters

indicate the existence of a material uncertainty about PACI's ability to continue to operate without significant Government support.

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## GOVERNANCE REPORT

64. We reported a number of internal control, financial management and governance issues in our Governance Report to the Port Authority, many of which we had reported in the prior year and were not actioned by management. Issues reported again to management included: non-compliance with the *Port Authority Law (1999 Revision)* and *Port Regulations (2011 Revision)*; weaknesses in the management of commercial leases; and weaknesses in financial and operational management impacting on a range of areas including fixed assets, procurement and tendering. The most significant additional matters reported for the year ending 30 June 2012 include:

- **Failures in the project management for refurbishment of PACI's cranes:** PACI incurred costs of over \$1.2m in refurbishing one of its cranes, and as at 30 June 2012 had incurred \$200k in refurbishing another crane. As a result of the condition of the first crane being far worse than originally thought, work originally estimated to last a few weeks and at minimal cost, spread to over a year at significantly greater cost. This contributed to PACI's strained financial position. We noted that there was no analysis or appraisal at the beginning of the projects to consider the value of refurbishing instead of other options including purchasing new cranes, nor was there a projection of the costs that were associated with the refurbishment;
- **Increasing legal expenses:** PACI incurred legal expenses of \$102k during the financial year compared to \$27k in the prior year. We also noted a further \$306k was incurred between 30 June 2012 and 13 November 2012. When we reviewed the reasons for incurring the legal fees, we confirmed that apart from a one claim for damages, a substantial amount of the legal fees related to defending freedom of information requests at the request of the Board. As this mainly relates to the year ending 30 June 2013 we will report further on this matter in our SAGC general report for the year ending 30 June 2013. However it raises initial concerns about the value and costs involved in undertaking such action particularly in light of the PACI's financial position; and
- **Work in progress accounts:** PACI had over \$500k in its work in progress accounts relating to the Cruise Facility project. The amount related to work undertaken on previous attempts to move the Cruise Facility project forward, and included some miscellaneous expenses such as travel and consultancy expenses. Accounting standards clearly state that an item should only be classified as an asset if it will generate future, measurable value to the entity. These amounts have subsequently been expensed (2011/12: \$181k and 2012/13: \$319k) as they are unlikely to generate future value due to the change in approach taken by Government.

65. Other matters reported to the Board included:

- ineffective inventory management practices leading to increased risk of loss or fraud;
- lack of sound monthly financial analysis to enable management and the Board to monitor the financial performance and identify financial threats, risks and opportunities and enable informed and effective decision making;
- write off of \$240k of assets without Board approval as required by Board policy; and
- lack of monitoring of employee time to ensure it was sustainable, and mitigate the related health and safety, and financial risks.

## PUBLIC SERVICE PENSIONS BOARD (PSPB)

### AUDIT REPORT

66. The opinion on the financial statements PSPB was qualified as I was unable to audit the amount reported for overpaid contributions by members (approximately \$1.7 million) due to a lack of record keeping.
67. Whilst my opinion was not qualified for any other matters, I also highlighted four matters for the readers of the financial statements in my audit report.
68. **Actuarial Valuation Report:** The notes to the financial statements indicate that the 2011 and 2008 actuarial valuation reports completed on April 2012 and March 2009 respectively were submitted to the Financial Secretary on April 2012 and April 2009. Neither report, had been accepted and approved by Cabinet at the date of my audit report, although they were subsequently tabled and accepted in the Legislative Assembly on 11 December 2013. As a result both contributions received and contributions receivable in the financial statements were reflective of the 2005 actuarial valuation report.
69. In the most recent actuary report, the actuary indicated that the continuation of the current plan contributions (both Defined Benefit and Defined Contribution) for the public service pensions plan will be insufficient to meet benefit payments and expenses. The actuary also reported that the parliamentary pensions plan continues to be severely underfunded with assets only covering 22% of the past service obligations. There is no action plan in place to address these plan shortfalls.
70. **Separate Accounting of Pension Funds:** The PSPB currently pools the funds into one set of financial statements and does not identify or disclose the investments and administrative expenses for each of the three pension plans: Public Service; Parliamentary; and Judicial.
71. We believe that the *Parliamentary Pensions Law, 2004* and *The Judges' Emoluments and Allowances Order, 2005* and of the *Public Service Pensions Law (2004 Revision)* require separate reporting of financial information for each Fund.

72. **Procurement Regulations:** *Section 41 (2) of the Financial Regulations (2010 Revision)* prescribes that any contract with a value of \$250k or more should be considered by the Central Tenders Committee. The Board approved and awarded a contract with an estimated value of \$292K for the new pension administration system which was not submitted to the Central Tenders Committee for evaluation.
73. Actual payments made to LynchVal for the new pension administration system amounted to \$444k, \$152k (52%) in excess of the expected cost to complete the project. As at January 2013, total payments made to LynchVal amounted to \$522k. The cost increase resulted from the decision to purchase the system rather than lease it after the contract was awarded.

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## GOVERNANCE REPORT

74. We reported a significant number of matters to those charged with Governance including:
- **Assessment of Cash Flow to ensure sustainability:** We noted operational trends that could have an adverse impact on the funds' cash flows. These include growing amount of annual benefits paid to participants; static movement of contributions; and no output funding received from government. These trends have not been fully analyzed by PSPB management resulting in an unknown risk about how they may negatively impact the funds should this pattern continue on the next few years;
  - **Policies and Procedures:** We identified instances where the PSPB did not have documented policies and procedures to ensure consistent and appropriate management practices, and ensure appropriate internal controls are in place. These included: overpayment of pension benefits; cash out payments; and, annual pension benefits statements;
  - **Year-end financial statement closure process:** A number of discrepancies were identified and adjustments were required due to weaknesses in internal controls and the year-end financial statement closure process. We noted a lack of periodic reconciliation of records and discrepancies for contributions receivable, employer and employee records, and the cash out schedules; and
  - **Compliance with Public Service Pensions Law:** *Section 26 (1) PSPL (2011 Revision)* states that: *"Notwithstanding any provision to the contrary, a retired or deferred vested participant who is not the holder of Caymanian status as defined in section 20 of the Immigration Law (2011 revision); and ceases to reside in the Islands, may, upon such cessation in residency, elect to receive the present value of the remainder of his accrued benefit in an immediate single lump sum cash payment payable within one month after he so ceases to be resident in the Islands"*. We noted that payments are not being made within the prescribed period of one month.

## SISTER ISLANDS AFFORDABLE HOUSING CORPORATION (SIAHDC)

### AUDIT REPORT

75. The opinion on the financial statements for the SIAHDC for the year ending 30 June 2012 was disclaimed. This audit was concluded at the same time as the five audits for the years 2006-07 to 2010-11 which were also disclaimed. The new board appointed in 2013 could not make the required representations as to the fairness of the presentation of information in the financial statements.

### GOVERNANCE REPORT

76. Detailed matters arising from the audits of the SIAHDC for the six years up to the year ending 30 June 2012, along with the year ending 30 June 2013 have been included in the Governance Report for the 2012-13 financial year. We will be reporting these matters in the General Report for the year ending 30 June 2013.

## TOURISM ATTRACTIONS BOARD (TAB)

### AUDIT REPORT

77. For the year ended 30 June 2012, I issued a qualified opinion on the financial statements. I identified seven areas of concern in my opinion. These were:

- the cash and cash equivalents balance of \$1,246,994 was not fairly stated as two bank accounts totaling \$42,765 were excluded from the Boards records. Additionally, we were unable to validate deposits totaling \$10,268 We noted a general lack of controls for cash collections in several entities which impacted the completeness and accuracy of the cash balance;
- property, plant and equipment of \$12,261,913 was not fairly stated. From a review of the revaluation carried out for the properties, we determined that there is an estimated overstatement of property values presented in the 2012 financial statements in excess of \$200,000. In addition, we were also unable to confirm the accuracy of the depreciation expense of \$240,411;
- the equity balance of \$13,254,243 was not fairly stated due to the significant unadjusted differences noted;
- the existence and accuracy of transactions totaling \$211,027 related to the insurance accrual could not be determined;
- the completeness and accuracy of gross revenues totaling \$831,005 out of the overall revenue balance of \$2,691,183 could not be confirmed due to the lack of adequate controls over revenue transactions at Pirates Week gift shop and the Botanic Park. Additionally, several income transactions were not recorded in the financial statements as a result of the omission of two bank accounts;

- the accuracy of the receivables balance of \$98,922 could not be confirmed due to the control issues noted with revenue as well as material differences noted with intercompany receivable balances which were not properly eliminated on consolidation; and
- the completeness of the related party transactions disclosed at note 8 to the financial statements could not be verified as the systems in place were not adequate.

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## GOVERNANCE REPORT

78. In our Governance Report we identified a number of other governance and internal control issues that exposed TAB to increased risk of error, fraud and the misuse of public funds. We identified a number of situations where there was a general lack of segregation of duties and breakdown in basic controls.

79. **Cash and Cash Equivalents:** We identified a range of issues in the management of cash including: discrepancies in bank reconciliations; lack of segregation of duties; significant delays in depositing cash into bank accounts; inappropriate adjustment of amounts recorded in the accounting system; and un-deposited cash recorded in the general ledger totaling \$10,628. The significant number of weaknesses and discrepancies in the management of cash greatly increased the risk of misappropriation of assets and fraud.

80. **Inventories:** We identified a number of discrepancies and internal control weaknesses in the management of inventories, which created an increased risk of inaccuracy in the financial records and misappropriation of assets.

81. **Pirates Week Revenues:** We identified a significant number of discrepancies in the accounting records for Pirates Week as well as several internal control weaknesses. As a result, the risk of loss or misappropriation of revenue was significantly increased. During the audit, we identified the misappropriation of approximately \$5k for the reporting period, and other irregularities including delayed deposits of \$6k, that were reported to the Board. The individual responsible was subsequently suspended but later reinstated with revised responsibilities. Some of the issues identified creating the opportunity for theft were:

- a Point of Sales system set up at Pirates Week was not used to generate receipts until early in the 2012 calendar year. Instead, manual receipts were written from a duplicate receipt book and then entered into the point of sale system;
- differences noted in reconciling the manual receipts to actual deposits indicating that some funds collected were not deposited i.e. manual receipt amounts were greater than the amounts deposited. Additionally, while reviewing the sequence of receipts, there were manual receipts which were missing from the files;
- several instances where invoice amounts were either reduced downward or deleted without an explanation on file for the adjustment made; and

- instances where manual receipts were denoted as no-charge although these receipts had a customer name and in some instances amounts written on them. Additionally, several receipts were denoted as charge-to-account. None of these receipts were recorded in the accounting system batch or deposit slip.

82. Other issues we reported included:

- **Botanic Park Orchid Sale:** No supporting receipts were available for orchid sales. The cash register tape was printed over and could not be read. Orchid sales accounted for approximately \$37k of total revenue for 2011-12.
- **Botanic Park Loss Due to Theft:** We noted that \$452 was taken from the safe at Botanic Park because of poor practices. The incident was reported to the Financial Controller.
- **Hell Tenant Agreements:** Some tenants at Hell had not signed agreements with TAB and had not been paying the monthly rental fees.
- **Vendor Contract:** A vendor was contracted for a special project at Botanic Park to grow certain quantities and species of fruit trees which the Tourism Attraction Board agreed to buy. The total contract amount was \$36k payable via equal monthly amounts of \$3k. The contract was let without any form of tendering. We understand that the former Minister made a recommendation to the staff of the Ministry of Tourism which was then communicated to TAB and accepted.

## UNIVERSITY COLLEGE OF THE CAYMAN ISLANDS (UCCI)

### AUDIT REPORT

83. The opinion was unqualified for the year ended 30 June 2012. However, without qualifying my opinion, the audit report highlighted information in the financial statements regarding an ownership issue concerning buildings and land.

84. The financial statements included the value of land and buildings used by UCCI for its operations. The disclosure in the statements would lead the reader to believe that UCCI owned the assets. We found that land and buildings were not technically owned by UCCI and remained registered in the name of the Government of the Cayman Islands. While it was a technicality as UCCI is 100% owned by the Cayman Islands Government, legally UCCI had no title to the assets and therefore, should not have had the assets recorded in its financial statements. However after the date of my audit report the assets were subsequently vested to UCCI on 13 September 2013, resolving this matter going forward.

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## GOVERNANCE REPORT

85. In our Governance report we reported a number of matters. There are two I wish to highlight:

- **Uncollected tuition fees:** Approximately 90% of the tuition fees outstanding (\$402k) at year-end, were over 90 days in arrears. This is an increase from prior year when it was 85% of the total amount. While management indicated to us that they have made extra effort to collect on these overdue accounts, it appears that their efforts have not had the desired effect. We recommended that management review their collection strategy; and
- **Accounts Receivable Credit Balances:** We noted credit balances totaling \$191,606 on an accounts receivable credit account. The credit amounts represent overpayments or prepayment of tuition fees as well as delayed billings where students have taken a course but the charge has not been put on their account. We also noted instances where students have credits on their account but are now making new payments. Billing should be performed in a timely manner and credits relating to overpayment should be utilized prior to any new charges. Credits for students who have subsequently completed their courses should be cleared from the account by way of refund.

## WATER AUTHORITY (WA)

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## AUDIT REPORT

86. The opinion on the WA's financial statements was qualified as I was unable to determine whether the amount of \$1,391,000 reported as a past service pension liability was fairly stated. Pension contributions for eligible employees of the WA are paid to the Public Services Pension Fund and the WA is required to report a liability amount related to the past service pension of its employees from the date of incorporation. The WA, however, was not able to determine the amount of the liability as at 30 June 2012 as the Public Service Pension Board had not provided an actuarial valuation for that time period.



87. In our Governance report we reported a number of matters. I wish to highlight matters in respect of the Billing System Migration and general IT related issues.

88. **Billing system migration:** On 1 April 2012 the Authority migrated its customer billing to a new system. To necessitate this migration, an upgrade of accounting software was also required. As a result of these changes the following observations were made:

- at 30 June 2012 the receivable from customer total per the general ledger did not agree to the sub-ledger (customer billing system) by a difference of \$160k. No explanation could be provided for this difference. The risk exists that revenue and receivables are either over or understated by this amount of \$160k;
- at 30 June 2012, the receivables aging report produced by the billing system was not accurate; and
- the detailed revenue and customer activity reports produced by the billing system did not provide the same level of information and meaningful data as those from the former system. Further no inactive customers report was available.

89. Finance staff had challenges reconciling the bank accounts on a timely basis due to unfamiliarity with the accounting system upgrade and issues with the billing system.

90. **IT related Issues:** We identified a number IT related issues and weaknesses that created significant risks for the WA and its ability to ensure accurate record keeping.



## **Contact us**

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## **Complaints**

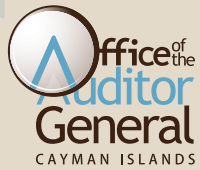
To make a complaint about one of the organisations we audit or about the OAG itself, please contact Garnet Harrison at our address, telephone or fax number or alternatively email: [garnet.harrison@oag.gov.ky](mailto:garnet.harrison@oag.gov.ky)

## **Freedom of Information**

For freedom of information requests please contact Garnet Harrison at our address, telephone or fax number. Or alternatively email: [foi.aud@gov.ky](mailto:foi.aud@gov.ky)

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September 2014