

Financial and Performance Reporting

Statutory Authorities and
Government Companies for the
years ending 30 June 2013 and 2014





To help the public
service spend wisely

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EXECUTIVE SUMMARY

I am pleased to present this report to the Legislative Assembly that summarises my Office's financial audits of the statutory authorities and government companies (SAGCs) for the years ending 30 June 2013 and 30 June 2014. I believe that Members of the Legislative Assembly will find this report useful in their role to ensure financial accountability and transparency for Government operations.

Along with government's summary financial statements, the annual reports and 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 statutory authorities and government companies accountable for their use of public resources.

Looking back to December 2010, when I delivered my first General Report on Financial and Performance Reporting, the situation was appalling. At that time:

- 85 (or nearly 40%) out of 220 sets of entity financial statements were outstanding;
- only 40 (18%) out of 135 audited financial statements had actually been tabled in the legislative assembly and were publicly available to citizens to see what revenues had been generated and how money had been spent; and
- 38 of the 98 financial statements issued had qualified opinions, and four had been disclaimed.

Therefore, six years after the introduction of the PMFL there was no accountability for the generation and use of public resources. Just as concerning there did not seem to be a plan in place to rectify the situation.

I am pleased to report that four and half years later that the situation has improved significantly. Whilst there are still challenges to be overcome, after a significant push in the second half of 2014 and first six months of 2015, we have nearly reached a position where the backlog of prior year financial statements has been cleared. It is unlikely that any SAGC financial statements for 2013-14 will receive an adverse opinion or a disclaimer of opinion, and at least 17 of the 27 SAGCs should receive an unqualified opinion.

However, whilst the story is one of progress, there is still some way to go to achieving accountability as expected by accounting standards and as envisioned in the *Public Management and Finance Law* (PMFL). The SAGCs are now better placed to achieve this, but it will still require a lot more work if it is to be achieved, in particular if the statutory timescales of the PMFL are going to be met.

In this report, I discuss some of the issues still preventing the timely completion and publication of credible financial and performance information that will need to be addressed to achieve accountability as envisioned in the PMFL. In particular I raise ongoing concerns about:

- impediments to timely completion of the audit and issuance of financial statements. Only 15 (prior year: 12) of the 27 entities were completed in line with the statutory timetable;
- delays by Ministries in the tabling of SAGC annual reports/annual financial statements in the Legislative Assembly;
- tabling of financial statements instead of annual reports required under the PMFL; and
- significant control weaknesses and weak governance in certain entities creating risk of mismanagement and abuse of public funds.

In this report, I have also included commentary on the financial performance and position of the entities I have audited. The financial results reported by the SAGCs provide a mixed picture, although overall there is an improvement in financial performance over the year. Nine entities reported a deficit for the year ending 30 June 2014, with at least 4 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 other entities, whilst not having any immediate challenges in meeting their obligations, there are still 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, the Government should set clear objectives and goals for all SAGCs to achieve accountability as required by the PMFL, in both the short and medium term, and require them to provide regular reports to Government and the Legislative Assembly on the progress being made on achieving those goals. In light of concerns I have raised in the past and this report's findings, I would recommend that the Legislative Assembly be provided with a comprehensive plan by the end of 2015.

My Office looks forward to continuing our work with Government and the individual entities as they continue on the path of improving financial reporting and restoring accountability for the use of public funds.

INTRODUCTION

1. Timely, accurate and reliable financial information is a fundamental component of ensuring the effective governance and accountability of Government and public entities. Without this information decision making is compromised as Legislators and officials cannot make effective and robust decisions regarding the allocation of resources and effective management of resources at their disposal. Furthermore, the Government and public bodies cannot be held accountable for how they have used public money.
2. I have issued a number of reports over the last few years discussing the concerns I had about financial and performance reporting across the public sector and reporting on the progress that had been made in clearing the backlog of financial statements and restoring financial accountability.
3. This report provides an update on the state of financial reporting in statutory authorities and government companies (SAGCs) for the years ending 30 June 2013 and 30 June 2014 and includes:
 - the status and results of the SAGCs audits for 2012-13 and 2013-14;
 - highlights of the financial performance reported by SAGCs;
 - the key issues that I have included in the audit opinions on individual SAGC financial statements; and
 - a summary of significant governance, internal control and financial management concerns that I have reported separately to entity management over this period.
4. For the small number of entities the audits for the years ending 30 June 2013 and 30 June 2014 have still to be completed. In these instances I have included some financial information from their draft financial statements in this report for completeness but very little or no additional commentary on the outcomes of the audits. Further information on the results of these audits and the financial performance for these entities will be provided in future reports once they are all completed.

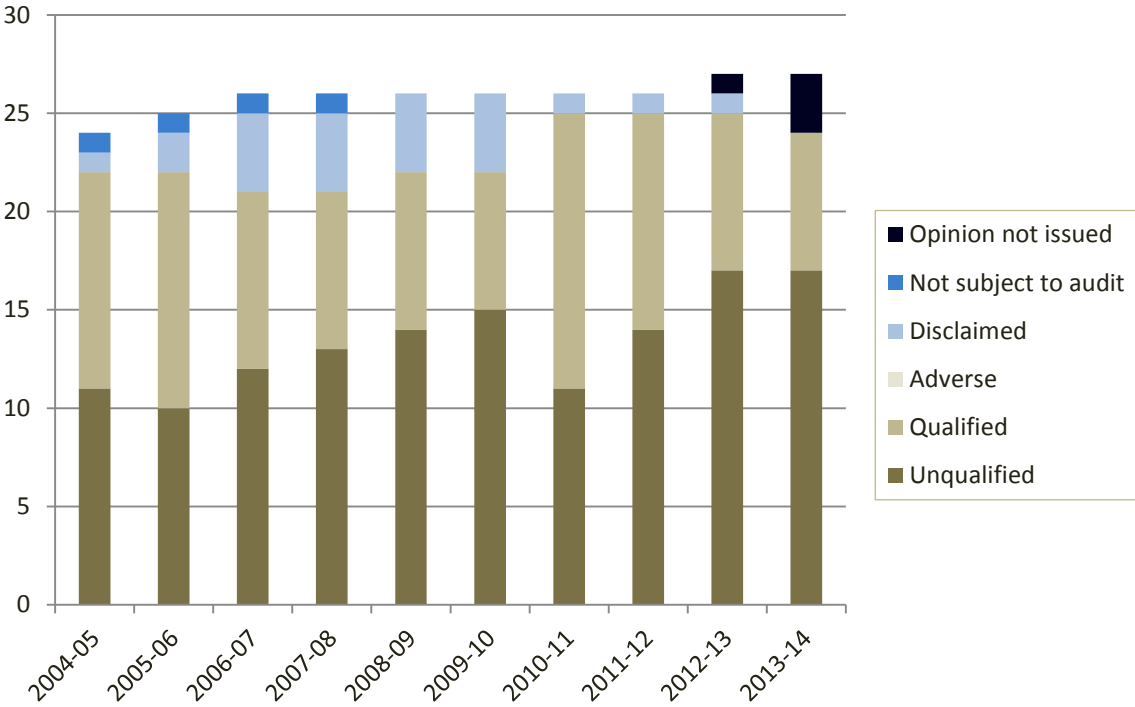
RESULTS OF THE 2012-13 AND 2013-14 AUDITS

INTRODUCTION

5. The outcomes from our audits for 2012-13 and 2013-14 have continued to show improvement in the quality and timeliness of the annual financial reporting for SAGCs. As at the date of this report, the audits of the financial statements for all but four audits have been finalised or completed. The audits outstanding are: Cayman Islands Airports Authority 2013-14; CINICO 2013-14; and Tourism Attraction Board 2012-13 and 2013-14.

6. For the year ending 30 June 2013, I have so far issued sixteen unqualified opinions, eight qualified opinions and one audit was disclaimed. One audit is finalised where I intend to issue an unqualified opinion and one audit has still to be completed. With respect to the year ending 30 June 2014 I have issued seventeen unqualified opinions and six qualified opinions. One further audit is finalised where I intend to issue a qualified opinion and three audits have still to be completed. Exhibit 1 below shows the trend in the audit opinions that my Office has issued since 2004/05.

Exhibit 1: Statutory Authority and Government Company audit opinions



7. Further information on the audits are provided in Appendices A and B. They include information about the audit opinions issued, the date they were signed and the date they were tabled in the Legislative Assembly. Appendix C provides information about the audit opinions I can provide according to *International Standards for Auditing*.

QUALITY OF THE FINANCIAL STATEMENTS

8. The purpose of annual financial reporting is to provide accountability to the Legislative Assembly of the Cayman Islands about the financial position of SAGCs and how they have used public resources. It is expected that all SAGCs should prepare timely annual financial statements and that they receive an unqualified audit opinion providing assurance that the information presented is credible and reliable.
9. A disclaimer of opinion or adverse opinion should be considered as a fundamental failure by the entity's management which undermines public accountability, transparency and trust. Apart from clearly demonstrating that an entity cannot effectively account for how it used resources, these opinions can also report failures of governance and internal control.
10. It is within this context that the overall quality of the financial statements of the SAGCs continues to improve 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.
11. As shown in Exhibit 1, both 2012-13 and 2013-14 resulted in an increasing number of SAGC's receiving unqualified audit opinions. As at the date of this report 17 out of 27 entity's, or nearly two thirds, have received an unqualified report for 2013-14. 2013-14 will likely also be the first year that no SAGC receives an adverse opinion or disclaimer of opinion. Exhibit 2 provides an analysis of the different qualifications across the seven entities that have received qualified audit reports (including the HSA where it is my current intention to qualify) on their 2013-14 financial statements so far.

Exhibit 2: Statutory Authority and Government Company Qualifications 2013-14

Entity	Past Service Pension Liability	Property Plant and Equipment	Equity	Cash and Cash Equivalents	Asset Impairment	Insurance premium Classification	Completeness of revenue	Completeness of receivables	Opening Balances
Cayman Islands National Museum									
Cayman Turtle Farm (1983) Ltd.									
Children and Youth Services Foundation									
Civil Aviation Authority									
Health Services Authority									
National Gallery of the Cayman Islands									
Port Authority of the Cayman Islands									

12. For the financial statements that have been qualified so far, in most instances this was due to the lack of appropriate supporting information, not enabling me to reach a conclusion on a specific material balance or transactions. In three instances the audit reports contained only one substantive qualification matter. With respect to the qualification on the Civil Aviation Authority past pension service liability this matter related to the opening position reported as at 1 July 2013 and the impact that had on the financial performance reported for 2013-14. The position reported at year end was correctly stated and as a result this qualification matter should fall away for the financial year 2014-15. The same qualification issue should also be resolved in 2014-15 for the Cayman Turtle Farm along with the insurance premiums issue.

13. There is now only one qualification matter that is prevalent across a number of entities relating to the completeness of income. For three entities, this results from a significant portion of revenue derived from cash donations which did not have the controls required for independent audit verification. Accordingly, I was unable to confirm that all revenues had been recorded in the accounts. I also intend to qualify the HSA on the completeness of the reported revenues as the entity did not have the systems in place to record all of its revenues from patient services.
14. I included “*matters of emphasis*” or “*other matters*” in the reports of eight entities, which, highlighted matters I believed needed to be brought to the attention of the users of the financial statements. The most significant issue I included in these audit reports was my concern relating to some entities ability to continue operating without the financial support they were receiving from core Government.
15. Specific details of each individual entity’s “*matters of emphasis*”/“*other matters*” are provided in Appendix E along with the detailed information on the qualifications reported for each entity in 2012-13 and 2013-14.

TIMELINESS OF THE FINANCIAL STATEMENTS

16. Financial reporting by public sector entities provides information about the entity that is useful to the users of general purpose financial reports and required for accountability and decision-making purposes.
17. Accounting standards identify a number of qualitative characteristics of the information contained in financial statements of public sector entities; relevance; faithful representation; understandability; timeliness; comparability; and, verifiability. In this context timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes.
18. The usefulness of financial statements is impaired if the information is not made available to users within a reasonable time period. International Public Sector Accounting Standards (IPSAS) clearly states that an entity should issue its financial statements within six months of the reporting date. Under the PMFL the statutory deadline for entities to be in a position to issue financial statements is 31 October or four months after the year end.
19. For the 2012-13 and 2013-14 fiscal years, I received financial statement submissions for all entities by the 31 August statutory deadline, with one exception which was received a few days late. The audits were completed for 15 of the 27 entities by the statutory deadline of 31 October in 2013-14, compared to fourteen in 2012-13, twelve in 2011-12 and only eight in 2010-11.

20. Subsequent to the passing of this year's statutory deadline, I encouraged the Deputy Governor to maintain pressure on entities and their senior management, to ensure that there was a concerted effort by entities in the first half of 2015 to complete all outstanding financial statements by 30 June 2015. Our experience in past years had clearly shown that the effort and momentum within entities to get the outstanding entity financial statements completed abated once the statutory deadline had passed, contributing to the backlog my Office faced.
21. Whilst the target of 100% compliance was not fully achieved, significant progress has been made. As at 30 June 2015 only six audits in four entities were outstanding: CIAA 2013 and 2014; CINICO 2014; HSA 2014; and, TAB 2013 and 2014. As at the date of this report the CIAA 2013 and HSA 2014 audits have been finalised and the other four are still outstanding. Therefore the majority of the continuing backlog of financial statements for SAGC's has now been addressed and we will be able to focus more on current work.
22. Staying current with the financial audits in SAGCs will continue to remain challenging in the short term, but if the momentum continues the likelihood of this being achieved in the next couple of years will be greatly increased as more space and time is available as entities become better at preparing financial information earlier in the financial year that would allow my Office to undertake more of their audit work prior to the statutory deadline for submission on 31 August.
23. Improving the timeliness of financial reporting over the last two years has been challenging as there continued to be some impediments. Despite all SAGCs making submissions to my Office in line with statutory timescales it became clear that a number of submissions were provided to meet the statutory timetable and were not in a condition to commence the audits. For example, the draft financial statements of the CIAA have had to be resubmitted multiple times with material amendments preventing my auditors from completing their audit effectively, and resulting in work having to be repeated.
24. Other issues that impeded the clearance and certification of entity financial statements over the course of the last two fiscal years included:
- delays in entities responding to audit requests as other priorities take precedence;
 - delays by core government dealing with material issues impacting SAGC financial statements. For example, CIDB and my Office were about to finalize the 2013-14 financial statements as at the statutory deadline of 31 October 2014, however confirmation was still required from Treasury regarding the future financing of CIDB. As a result the finalisation of the financial statements was delayed until 22 April 2015. This matter could have been resolved prior to the statutory deadline.

25. The timeliness of financial statements for 2013-14 showed improvement, and government is in a significantly better position than in the previous ten years. However, the delays noted above continue to negatively impact accountability and transparency in the use of public resources. At the same time, the delays increased the costs of auditing the relevant financial statements.
26. Going forward, entities should continue to work with my Office to improve the timeliness of their financial reporting so that the timescales set out in the PMFL can be achieved. This will require all entities to provide initial submissions that meet the quality standards for audit that faithfully represent the transactions of the entity, and to ensure that they are responsive to questions and issues raised by my team. If qualification matters are being raised during an audit, entities should be prepared to address those matters in a more timely fashion to respect the statutory reporting deadlines.

TRANSPARENCY AND ACCOUNTABILITY

27. The tabling of the annual reports containing the financial statements in the Legislative Assembly is the final step in the accountability chain. Among other objectives, the annual reports provide explanations of 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.
28. Many entities choose to table only the financial statements, leaving Legislators and other stakeholders unable to fully hold the entities accountable for their use of public resources. This lack of information, required by the PMFL, undermines the work that is put into the preparation of financial reports and my audit of them. It is challenging for stakeholders to interpret the results included in the financial statements as there is no discussion and analysis to contextualize the financial information. As at the date of this report, the annual reports and/or financial statements for 20 entities have been tabled for the year ending 30 June 2013 and 13 for the year ending 30 June 2014. Six annual reports from the prior year are still to be tabled.
29. While I am reporting that there continues to be delays, the Government has been making a concerted effort to table reports in a timely manner in the Legislative Assembly. Two reports for the year ending 30 June 2014 were tabled in line with the PMFL, the first time that this has been achieved for any SAGC since the introduction of the PMFL.
30. Once 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 be making their annual reports or financial statements accessible to all stakeholders on their own website and possibly through other appropriate media, to further promote transparency and accountability.

31. Looking forward, as more financial statements are signed off within the statutory timeframes, the Government should build on its recent efforts and ensure these are tabled in the Legislative Assembly in accordance with the timescales required by the PMFL. Furthermore, the Government should be pressing entities to present full annual reports as required by the PMFL, which includes a comprehensive discussion and analysis of their financial and operating performance.
32. The International Public Sector Accounting Standards Board (IPSASB) issued Recommended Practice Guidelines (RPGs) in 2013 on *“Financial Statement Discussion and Analysis”* and another on *“Reporting Service Performance Information”* in March 2015. Whilst entities are not currently required to implement these when applying the International Public Sector Accounting Standards (IPSAS) it is highly recommended, and in due course it may become part of the IPSAS and therefore become a requirement. The implementation of these RPGs would enhance transparency and accountability of entity financial performance and meet the Annual Report requirements of the PMFL.
33. Finally entities should also ensure that the annual reports and financial statements are made easily accessible to all stakeholders. Until this is achieved, the Legislative Assembly will continue to find it challenging to hold SAGCs accountable for how they collect and spend public monies.

FINANCIAL PERFORMANCE

INTRODUCTION

34. In the previous section, I highlight that most entities are not preparing an annual report and, therefore, are not in compliance with the PMFL. They are simply preparing financial statements and submitting them to the Legislative Assembly. One of the objectives of an annual report is to provide explanations for the financial results that provide stakeholders, Legislators and citizens an understanding of how public resources have been used and to hold Government and public bodies accountable.
35. As a result I decided to provide commentary and analysis on the financial performance of certain SAGCs. As stated in the previous sections, the main avenue for detailed discussion and analysis of individual entity results should be through the annual reports of entities. Therefore, 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.

2013-14 REPORTED RESULTS

36. For the year ending 30 June 2014 Exhibit 3 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 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;
 - draft unaudited results for CINICO , CIAA and TAB have been included for completeness, despite the audits not being finalised.

Exhibit 3: SAGCs Revenues, Expenses and Surplus/Deficit for the year ending 30 June 2014

Entity	Revenues from Govt (Outputs)	Revenue from Other Sources	Total Revenue	Expenses	Surplus/ (Deficit)
Auditor Oversight Authority	288,682	0	288,682	288,682	0
Cayman Airways Limited	17,805,808	55,858,903	73,664,711	75,647,771	(1,983,060)
Cayman Islands Airport Authority ¹	0	26,570,755	26,570,755	21,715,8360	4,854,919
Cayman Islands Development Bank	574,768	1,884,975	2,459,743	2,398,051	61,692
Cayman Islands Monetary Authority	9,865,000	10,033,000	19,898,000	19,214,000	684,000
Cayman Islands National Museum	887,173	177,893	1,065,066	1,060,570	4,496
Cayman National Cultural Foundation	679,394	190,027	869,421	968,656	(99,235)
Cayman Islands Stock Exchange	0	1,634,861	1,634,861	1,377,822	257,039
Cayman Turtle Farm (1983) Ltd.	0	6,040,308	6,040,308	13,556,614	(7,516,306)
Children & Youth Services Foundation	2,178,000	56,481	2,234,481	1,910,870	323,611
CINICO ¹	27,039,000 ²	36,556,818 ¹	63,595,818	59,262,328	4,333,490
Civil Aviation Authority	0	6,924,267	6,924,267	4,112,175	2,812,092
Electricity Regulatory Authority	(342)	966,542	966,200	679,404	286,796
Health Services Authority ¹	31,527,400	69,664,732	101,192,132	100,143,946	1,048,186
Information and Communications Technology Authority	345,551	1,433,403	1,778,954	1,597,885	181,069
Maritime Authority of the Cayman Islands	432,270	9,173,603	9,605,873	8,823,202	782,671
National Drug Council	541,138	3,649	544,787	574,764	(29,977)
National Gallery of the Cayman Islands	434,119	440,583	874,702	983,190	(108,488)
National Housing Development Trust	645,000	467,000	1,112,000	2,349,000	(1,237,000)
National Roads Authority	9,183,356	392,709	9,576,065	9,272,010	304,055
Port Authority of the Cayman Islands	0	19,923,402	19,923,402	17,951,426	1,971,976
Sister Islands Affordable Housing Development Corporation	55,000	1,000	56,000	160,000	(104,000)
Tourism Attractions Board ¹	2,033,555	1,019,510	3,053,065	3,113,896	(60,831)
University College of the Cayman Islands	4,248,542	2,947,118	7,195,660	7,313,125	(117,465)
Water Authority of the Cayman Islands	0	29,347,601	29,347,601	27,467,944	1,879,657

¹ Unaudited figures from the draft financial statements

² Based on Approved Budget for Outputs from Government

37. In Appendix D, further analysis provides details of the following:

- key balances on the statements of Financial Position as at 30 June 2014; and
- the level of surpluses/deficits, revenues provided by Government and expenses reported by each SAGC over the five financial years from 2009-10 to 2013-14.

38. 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 3 and the information in Appendix D:

- the cumulative surplus of the SAGCs in 2013-14 was \$8.5 million, moving from a deficit position in 2011-12 of \$12.7m;
- cumulative revenues have increased to \$390m in 2013-14 from \$354m in 2011-12, more than double the increase in cumulative expenses of just over \$14m to \$381m during the same period;
- excluding the PSPB 36% of SAGCs reported a loss for the year ending 30 June 2014 compared to 44% and 60% for the years ending 30 June 2012 and 2013 respectively;
- consistent with prior years around 10 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 continue to be under financial strain, with challenges in meeting their current obligations. Whilst there has been improvement since 2011-12, there will continue to be ongoing challenges for a number of entities;
- the level of revenues provided through Government output payments (payments to SAGCs for the provision of services) was almost \$109m in 2013-14. It has increased by only \$3m in total since 2011-12. However within this there have been some significant increase in funding provided by Government at CINICO, the HSA and Cayman Airways, which have been counterbalanced to a degree by a significant decrease in the output funding provided to CIMA, which now receives approximately 50% of funding directly from fees charged to the financial services sector which the Government allows them to retain as a source of funding; and
- in addition SAGCs also received Government equity injections, which were over \$31m in 2013-14, and other items such as civil service health insurance contributions.
- non-current Debts/Loans have decreased by \$49m since 30 June 2012 to \$85m as at 30 June 2014, although a significant factor is that a significant portion (\$26m) of the CIDB's borrowings become due within the next financial year and therefore changed classification from non-current debt.
- the re-measurement of pension liabilities affected the financial performance of a number of entities.

39. 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 D, at least 8 entities have reported deficits consistently over the five years raising significant questions about their compliance with the *PMFL* and the legality of operating with annual deficits.

SPECIFIC ENTITY RESULTS

40. 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. Detailed information for any entities where the audits have still to be completed will be provided in a brief supplementary report when the audits are completed.

CAYMAN AIRWAYS LTD. (CAL)

41. CAL generated income of \$55.9m, and incurred expenditure of \$75.6m leading to an operating loss of \$19.7m 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 \$9.9m over the last five years this has nearly been matched by increased costs of \$8.8m.

42. After funding from Government of \$17.8m, the net loss for the year ending 30 June 2014 was \$1.9m. This represents an improvement on the net loss incurred in the prior years. This does reflect improved revenue generation but a significant factor is the increased output funding that CAL received from Government over the period. Exhibit 4 provides details of CAL’s financial performance and position for the last five years.

Exhibit 4 – CAL’s financial performance and position 2009-10 to 2013-14

Statement of Financial Performance	Y/E 30 June 2010	Y/E 30 June 2011	Y/E 30 June 2012	Y/E 30 June 2013	Y/E 30 June 2014
Revenues	45,910,492	47,802,343	52,278,444	51,583,803	55,858,903
Govt. Output Funding	10,500,000	15,000,000	15,770,000	18,169,183	17,805,808
Total Revenues	56,410,492	62,802,343	68,048,445	69,752,986	73,664,711
Expenses	66,849,044	67,668,088	72,397,116	75,478,193	75,647,771
(Loss)	(10,438,552)	(4,865,745)	(4,348,672)	(5,725,207)	(1,983,060)
Statement of Financial Position	As at 30 June 2010	As at 30 June 2011	As at 30 June 2012	As at 30 June 2013	As at 30 June 2014
Shareholder Deficit	(58,700,064)	(58,465,809)	(57,714,481)	(53,638,746)	(50,521,808)
Equity Injection	0	5,100,000	5,100,000	10,088,323	5,100,000
Accumulated Deficit	(110,961,822)	(115,827,567)	(120,176,239)	(126,188,827)	(128,171,887)
Current Assets	6,647,214	3,640,383	2,705,023	7,270,383	6,650,043
Current Liabilities	36,085,696	49,533,021	52,464,773	49,196,888	54,952,811
Current Ratio	0.18	0.07	0.05	0.15	0.12

43. The financial position as at 30 June 2014 shows that CAL is dependent on Government support to continue operating in the future. The shareholder deficit has improved with it standing at \$50.5m as at 30 June 2014, down from \$57.7m two years ago. However this is after further equity injections by the Government of \$10.1m and \$5.1m in 2012-13 and 2013-14 respectively.
44. CAL had current liabilities of \$54.9m at 30 June 2014 which are significantly greater than the total assets of the company of \$34.5m let alone the current of assets of only \$6.6m.
45. As noted in note 8 of their financial statements, due to the shortage of available funds, CAL had difficulties paying its creditors. As at 30 June 2014, CAL had accounts payable of \$35.2m, of which \$26.5m was repayable to related parties including \$17.6m payable to the Cayman Islands Airports Authority. It also had a bank overdraft of \$2.2m, and loans payable and lease obligations of \$5.8m.
46. In the event that Government decides to discontinue financial support, CAL would unlikely be able to continue operating in the future and, therefore, be unable to meet its obligations as they fall due.

47. Exhibit 5 provides details of the bank's financial performance and position for the last five years.

Exhibit 5 – CIDB's Financial Performance and Position 2009-10 to 2013-14

Statement of Financial Performance	Year ending 30 June 2010	Year ending 30 June 2011	Year ending 30 June 2012	Year ending 30 June 2013	Year ending 30 June 2014
Operational Revenues	2,691,600	2,504,999	2,490,475	2,423,408	1,978,489
Govt. Output Funding	577,872	577,875	577,875	566,768	574,768
Operational Expenses	(1,891,808)	(2,065,653)	(2,236,843)	(1,865,913)	(1,038,481)
Net revenue operations	1,377,664	1,017,221	831,507	1,124,263	1,514,776
Admin Expenses	(2,078,824)	(1,794,885)	(1,598,387)	(1,611,097)	(1,465,422)
Net Income/(Loss)	(701,160)	(777,664)	(766,880)	(486,834)	49,354
Statement of Financial Position					
	As at 30 June 2010	As at 30 June 2011	As at 30 June 2012	As at 30 June 2013	As at 30 June 2014
Shareholder Equity	4,879,934	4,102,270	3,335,390	3,848,556	5,410,248
Bonds/Loans Payable	30,100,373	38,032,878	37,657,381	37,297,868	36,986,301
Loans/Advance to Customers (Net)	34,542,335	38,685,124	36,118,603	33,737,996	31,638,286
Provisions for Bad Debts	2,667,443	3,245,673	4,348,112	4,907,688	4,814,174
Bad Debt Write offs	0	410,188	0	175,877	0

48. In the previous four years the bank had posted significant losses but in 2013-14 the Bank generated a net surplus of \$49k. Despite the banks operational revenue from loan interest and loan commitment fees in 2013-14 showing a significant decrease of approximately \$445k on the prior year, operational expenses and administrative expenses decreased by around \$827k and \$146k respectively on the prior year. The biggest factor in the positive change in the banks position is that in 2013-14 the bank did not increase its provision in impairment losses on its loans to customers which in the last four years had been increasing on average by around \$747k a year.

49. The Bank's financial position is challenging. As at 30 June 2014 the majority of the banks debt (\$34.7m) was due within two years, and the bank's ability to extinguish it was highly improbable given its cash position and the nature of loan portfolio. The mitigating factor however is that the Cayman Islands Government has guaranteed all the debt.

50. Subsequent to the year end the bank obtained a temporary one year extension to April 2016 for US\$20m for debt which matured in April 2015, which enabled the financial statement to be prepared on a going concern basis. By 30 June 2015 at the direction of Government, the Bank repaid \$4.2m of debt from its own sinking fund. The remaining debt of \$30.5m was consolidated and financed by FCIB over a 15 year amortization period with a 3 year principal payment moratorium at 90 day LIBOR plus 1.125%.

51. With respect to loans to customers, the Bank's loan delinquency rate was extremely high with 276 (67%) out of the portfolio of customer loans over 90 days in arrears. The balance in arrears over 90 days was \$6m on delinquent loan balances of \$18.3m or 50% of the overall portfolio balance. On its loan portfolio of \$36.5m the Bank made a provision of \$4.8m for impaired loans (bad debts). As at 30 June 2014 CIDB also reported loans of \$9.3m that were delinquent (but not considered impaired i.e. less than 90 days in arrears), up significantly from the \$4.7m (35% of the loan portfolio) reported as at 30 June 2013. This poses a significant risk to the CIDB's ability to continue operations.
52. The Bank has not been able to clean up its balance sheet and write down impaired loans due to the absence of a Board of Directors for several years. When a board is appointed and the write down is approved the delinquency rate will decrease as a result.
53. The bank will continue to remain in a challenging position for the foreseeable future. Nearly all lending it is currently providing is for student loans with 97% of other new loans actually restructures of existing loans. The financial position and 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. It is highly unlikely that the bank will be able to carry out this function, without significant support from the Government.

CAYMAN ISLANDS MONETARY AUTHORITY (CIDB)

54. Exhibit 6 provides details of the bank's financial performance for the last five years.

Exhibit 6 – CIMA's Financial Performance 2009-10 to 2013-14

Statement of Financial Performance	Year ending 30 June 2010	Year ending 30 June 2011	Year ending 30 June 2012	Year ending 30 June 2013	Year ending 30 June 2014
Revenues	1,352,000	1,637,000	1,060,000	3,832,000	10,033,000
Govt. Output Payments	15,750,000	16,850,000	17,350,000	14,865,000	9,865,000
Total Revenues	17,102,000	18,487,000	18,410,000	18,697,000	19,898,000
Expenses	16,913,000	17,673,000	18,296,000	18,885,000	19,214,000
Net Income/(Loss)	189,000	814,000	114,000	(188,000)	684,000

55. Over the last five years CIMA's revenues and expenses have consistently risen reflecting changes to business and new activities. 2013-14 in particular saw a sharp rise in revenues, reflecting changes in the sources of CIMA's funding.

56. Up to the year ending 30 June 2012 around 90% of CIMA's funding was provided through output payments from Government. In 2012-13, Transactional Fees which CIMA collected on behalf of Government was changed from being coercive revenue into entity revenue. Therefore rather than remitting these fees to Government, CIMA kept the revenue collected and their output funding was proportionately reduced. In 2013-14 the Directors Registration and Licensing Fees were introduced, which were classed as entity revenue, which CIMA retained and their output funding was again reduced proportionately. In 2013-14 the revenue from these two fees represented 46% of CIMA's revenues, whilst Government Output funding had fallen to just under 50% of total revenues.
57. The key question in this is whether these fees can truly be regarded as entity revenue rather than coercive revenue. These fees are required to be paid under the coercive power of the state and there is no direct exchange for services, therefore they are technically coercive revenue, but it would appear they have been deemed entity revenue for budgetary purposes.

CAYMAN TURTLE FARM LTD. (CTF)

58. The CTF generated income of \$6m during 2013-14. After taking account of operating and administrative expenses the Turtle Farm generated a net loss for the year of \$7.5m.
59. The financial position as at 30 June 2014 indicates that the Turtle Farm is still dependent on Government support to enable it to continue operating in the future. In the last couple of years its financial position has improved as it has decreased its total liabilities by approximately \$15.8m or 37% and its ratio of current assets to current liabilities has strengthened. The net asset position of the CTF has moved from a liability position of \$3.8m at 30 June 2012 to a net asset position of \$7.5m as at 30 June 2014. The main contributory factor, for this improvement is significant equity injections particularly in the last year. In the prior four years equity injections had averaged \$9.9m annually, but in 2013-14 the equity injection increased by over 50% to \$15.5m.
60. Non-current liabilities are now \$19.3m, down from \$28m as at 30 June 2012, the majority of which are guaranteed senior notes and long term bank loans that are guaranteed by Government. Non-current assets are valued at \$31.1m but 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 five years.

Exhibit 7 –CTL’s Financial Performance and Position 2009-10 to 2013-14

Statement of Financial Performance	Year ending 30 June 2010	Year ending 30 June 2011	Year ending 30 June 2012	Year ending 30 June 2013	Year ending 30 June 2014
Revenues	5,993,256	5,214,402	5,610,872	6,376,046	6,040,308
Expenses	14,344,057	13,178,107	13,745,366	13,860,298	13,556,614
(Loss)	(8,350,801)	(7,963,705)	(8,134,494)	(7,484,252)	(7,516,306)
Statement of Financial Position					
Statement of Financial Position	As at 30 June 2010	As at 30 June 2011	As at 30 June 2012	As at 30 June 2013	As at 30 June 2014
Shareholder Equity (Deficit)	(7,188,376)	(5,299,512)	(3,764,588)	(570,069)	7,477,787
Equity Injection	9,555,610	9,852,569	9,669,418	10,678,771	15,564,162
Current Assets	2,660,637	3,145,825	3,502,326	4,181,121	3,156,112
Current Liabilities	14,330,106	14,196,328	14,522,684	14,206,808	7,498,009
Current Ratio	0.19	0.23	0.25	0.29	0.42

61. 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.

CIVIL AVIATION AUTHORITY (CAA)

62. Exhibit 8 provides details of the CAA’s financial performance for the last five years.

Exhibit 8 – CAA’s Financial Performance and Position 2009-10 to 2013-14

Statement of Financial Performance	Year ending 30 June 2010	Year ending 30 June 2011	Year ending 30 June 2012	Year ending 30 June 2013	Year ending 30 June 2014
Revenues	4,819,642	4,808,351	5,606,415	6,286,524	6,924,267
Govt. Output Payments	0	0	0	0	0
Total Revenues	4,819,642	4,808,351	5,606,415	6,286,524	6,924,267
Expenses	3,170,405	2,944,304	3,573,087	4,074,194	4,112,175
Net Income	1,649,237	1,864,047	2,033,328	2,212,330	2,812,092

63. The CAA has delivered a strong financial performance during 2012-13 and 2013-14. Its revenues have increased by over \$2.1m or 44% since 2009-10, with an increase of \$638k in the last year. Whilst expenses have increased over the same period this has been at much slower rate. Therefore the surplus generated has increased by just over \$1.1m or 70%, from \$1.65m in 2009-10 to \$2.8m in 2013-14, with \$0.6m of that increase coming in the last year.

64. The main driver in the strong revenue performance is from aircraft safety regulation and certification fees generated from aircraft on the Cayman Islands Aircraft Register, which the CAA has successfully continued to grow.
65. Unsurprisingly the CAA was in a strong financial position as at 30 June 2014. As a result it has been able to pay dividends to the Government of \$4.1m and \$2.5m for 2012-13 and 2013-14 respectively.

CULTURAL AND ARTS COMPANIES

66. 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. All three entities reported significant operating losses in 2012-13, with the National Gallery and the Cultural Foundation reporting losses again in 2013-14. In all three entities, the majority of the operating revenues were provided through Government subsidy, which had been on a downward trend up until 2013-14 when there were some modest increases on the prior year. 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)

67. The HSA generated total revenues of \$101.2m during the year, and incurred expenses of \$100.1m leading to a surplus of \$1.1m for the year ending 30 June 2014. In 2012-13 it reported a deficit, for the third year in a row, of \$5.6m. With respect to its statement of financial position as at 30 June 2014, the HSA reported a reasonably healthy position with a net worth of over \$77m 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 \$68.2m since it came into existence and the positive position, and its ability to continue operating reflects the significant equity injections of \$130m over the years from Government. Exhibit 9 provides details of the HSA's financial performance and position for the last five years.

Exhibit 9 – HSA Financial Performance and Position 2009-10 to 2013-14

Statement of Financial Performance	Year ending 30 June 2010	Year ending 30 June 2011	Year ending 30 June 2012	Year ending 30 June 2013	Year ending 30 June 2014 ¹
Patient Services Revenue	53,291,638	54,155,905	60,364,427	63,608,641	63,931,779
Govt Output Funding: Patient Services	13,735,934	14,358,639	10,811,929	16,211,928	17,062,234
Govt Output Funding: Programmes	15,515,171	14,545,790	13,994,116	13,476,999	14,465,166
Other Income	1,462,485	407,713	526,824	617,832	5,732,953
Total Revenues	84,005,228	83,468,047	85,697,298	93,915,400	101,192,132
Expenses	77,765,015	83,712,158	90,307,001	99,538,253	100,143,946
Net income/(Loss)	6,240,213	(244,111)	(4,609,703)	(5,622,853)	1,048,186
Statement of Financial Position	As at 30 June 2010	As at 30 June 2011	As at 30 June 2012	As at 30 June 2013	As at 30 June 2014 ¹
Allowance for Bad Debts	49,691,758	26,886,785	29,890,405	45,533,298	57,089,591
Bad Debt Write offs	5,110,889	38,570,879	13,663,398	4,010,851	3,608,313
Equity Injection	2,204,210	1,808,000	0	1,561,470	849,567

¹ Unaudited figures from draft financial statements

68. In 2013-14 the HSA reported its first surplus since 2009-10 due to a significant increase in revenues of \$7.3m on the prior year. The increase in revenues is as a result of an insurance reimbursement of \$4.8m and additional Government output funding of \$1.8m rather than a significant increase in patient service income.
69. Expenses increased compared to the restated 2012-13 figures by \$0.6m. In 2012-13 the HSA staff costs increased significantly for an increase in the Authority's unfunded pension obligation, which was not repeated in 2013-14. As a result staff costs in 2013-14 decreased by over \$3m compared to 2012-13. Additionally provisions made for bad debts in 2013-14 were \$4m less than those made in 2012-13. However these significant reductions were offset by increased legal expenses of over \$5m for a negligence claim which the revenue from the insurance reimbursement relates to, and a loss of \$1.7m on the re-measurement of defined benefit pensions.
70. Government Output Funding has now increased to \$31.5m. In previous years the HSA's financial performance had been significantly affected by the under-funding of Government funded patient services including services for indigents and those beyond insurance coverage. The funding provided by Government is now closely aligned to the billed services for these services bringing the Ministry of Health and HSA back in line with the PMFL and the requirement for the full cost of outputs to be paid by the Governor in Cabinet, or another entity or person.

71. The financial statements also reflect the significant challenges the HSA faces in collecting its revenues. As at 30 June 2014 the HSA had allowances for bad debts of \$57m on accounts receivable of \$68.7m. Over the last five years the HSA had on average made additional provisions for bad debt of approximately \$15m annually and has written off bad debts totaling \$65m. If the full provision is eventually written off the HSA will have written off at least \$120m in receivables in the last 9 to 10 years.
72. Ultimately the financial performance and position of the HSA reflect the rising cost of providing healthcare and the challenges in collecting its revenues.

MARITIME AUTHORITY OF THE CAYMAN ISLANDS (MACI)

73. For the first time in the last five years MACI has posted a surplus in 2013-14. Annual revenues from external sources have increased since the 2009-10 financial year by over \$2m or 28%, however in prior years any increases were offset by increases in expenses and reductions of output funding from Government.
74. For 2013-14 the growth in external revenue on the prior year was \$707k or just over 8%, whilst Output Funding from Government remained stable. At the same time expenses decreased by just over \$400k on the prior year. The main factor in the reduction of expenses was a decrease of about \$427k in operating lease and utilities costs on the prior year, which reflects savings achieved through the Authority moving into the Government Administration Building from privately leased accommodation.
75. This represents a significant turnaround in MACI's performance. The Authority would have still generated a surplus of over \$300k even without any Output Funding from Government. Exhibit 10 provides details of the MACI's financial performance for the last five years.

Exhibit 10 – MACI Financial Performance 2009-10 to 2013-14

Statement of Financial Performance	Year ending 30 June 2010	Year ending 30 June 2011	Year ending 30 June 2012	Year ending 30 June 2013	Year ending 30 June 2014
Revenues	7,146,890	7,730,800	7,889,574	8,465,649	9,173,603
Govt Output Funding	1,271,654	1,280,652	1,093,942	394,028	432,270
Total Revenues	8,418,544	9,011,452	8,983,516	8,859,677	9,605,873
Expenses	8,691,175	9,145,349	9,139,968	9,237,394	8,823,202
Net Income/(Loss)	(272,631)	(133,897)	(156,452)	(377,717)	782,671

76. The improved 2013-14 performance has strengthened MACI's financial position and cashflow, reversing the downward trend that had been in evidence in prior years.

77. The NHDT has continuously operated at a loss since it came into existence. For the year ending 30 June 2014, it incurred a loss of \$1.2m on total revenues of \$1.1m, of which nearly 60% were generated through output payments from Government. The Trust has continued to see 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 through the demolition of homes and receivables from those remaining in unfit homes no longer being accrued. This has been matched to an extent by a decrease in expenses driven mainly by a significant decrease in bad debt expenses recorded in 2013-14. Exhibit 11 provides details of the NHDT's financial performance and position for the last five years.

Exhibit 11 – NHDT's Financial Performance and Position 2009-10 to 2013-14

Statement of Financial Performance	Year ending 30 June 2010	Year ending 30 June 2011	Year ending 30 June 2012	Year ending 30 June 2013	Year ending 30 June 2014
Revenues	863,832	793,986	619,000	704,000	467,000
Govt Output Funding	589,696	550,111	658,000	642,000	645,000
Total Revenues	1,453,528	1,344,097	1,277,000	1,346,000	1,112,000
Expenses	5,557,437	2,805,791	2,671,000	2,904,000	2,349,000
(Loss)	(4,103,909)	(1,461,694)	(1,394,000)	(1,558,000)	(1,237,000)
Statement of Financial Position					
Statement of Financial Position	As at 30 June 2010	As at 30 June 2011	As at 30 June 2012	As at 30 June 2013	As at 30 June 2014
Shareholder Deficit	(4,283,000)	(4,558,000)	(885,000)	1,105,000	2,519,000
Bonds Payable	14,025,806	21,632,000	20,510,000	19,362,000	18,185,000
Equity Injection	1,145,716	1,187,000	5,067,000	2,145,000	2,992,000

78. 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. Aside from the Government output funding the Trust receives each year, it has received significant capital injections from the Government over the last three years, which has enabled it to report a positive net worth as at 30 June 2014 of \$2.5m despite the continued growth of its accumulated losses to \$16.5m as at 30 June 2014. For the financing of NHDT's ongoing deficits and meeting the annual principal repayments on its bonds of over \$1m, NHDT will continue to require regular equity injections from Government to meet its obligations and to continue operating in the future. As at 30 June 2014 the balance of bonds payable was \$18.2m which are guaranteed by Government.

79. The NHDT financial position is also affected by its ability to manage its accounts receivable. As at 30 June 2014, after a provision for doubtful debts of \$0.5m, the NHDT had outstanding receivables of \$1.3 million, an increase of \$0.5m from 30 June 2013.

80. The provision for doubtful debts of \$0.5m mainly reflects unpaid outputs from government from 2010-11 and 2011-12 which are long overdue. The provision has significantly reduced from the position at 30 June 2012, but unfortunately this was due to a significant right off during 2012-13 of receivables relating to rent for old housing stock which it became clear would never be collectable. Delinquency among tenants remains high particularly given that persons transferred into new homes were deemed to be in good financial standing on transfer.
81. It should also be noted that funds/rent is still being collected from persons remaining in unfit homes despite the write-off of receivables and the discontinuation of accruing revenue for these persons. There is also the risk of potential liability from persons remaining in unfit homes.
82. On the basis of the current business model the Trust will only remain financially viable in the foreseeable future with further significant financial support from Government.

PORT AUTHORITY OF THE CAYMAN ISLANDS (PACI)

83. The Port Authority's financial performance over the last five years has shown improvement, particularly during 2013-14, moving from a significant deficit position in the year ending 30 June 2010 to a net income of nearly \$2m for the year ending 30 June 2014. During this period, PACI has generated increased revenues, mainly due to increased fee levels whilst also reducing its expenses. In 2013-14 PACI revenues increased by \$430k (2.2%) but more significantly expenses have decreased by \$1.16m (6.1%).
84. In prior years despite some positive operating performances I have reported that PACI has continued to have liquidity issues, as significant resources continued to be consumed in financing capital investments and meeting long term debt obligations. Whilst there remain some liquidity risks for PACI in the short term, if the financial performance of PACI continues on the same trajectory as that in 2013-14, its financial position will strengthen significantly in the next couple of years. Exhibit 12 provides details of PACI's financial performance and position for the last five years.

Exhibit 12 – Port Authority’s Financial Performance and Position 2009-10 to 2013-14

Statement of Financial Performance	Year ending 30 June 2010	Year ending 30 June 2011	Year ending 30 June 2012	Year ending 30 June 2013	Year ending 30 June 2014
Revenues	17,590,200	18,620,109	18,950,756	19,493,365	19,923,402
Expenses	19,446,617	18,205,935	18,401,758	19,115,365	17,951,426
Net Income/(Loss)	(1,856,417)	414,174	548,998	378,000	1,971,976
Statement of Financial Position	As at 30 June 2010	As at 30 June 2011	As at 30 June 2012	As at 30 June 2013	As at 30 June 2014
Current Assets	3,745,481	2,858,692	3,923,154	4,078,073	4,200,367
Current Liabilities	6,119,751	6,207,219	7,424,147	6,733,224	5,080,100
Current Ratio	0.62	0.46	0.53	0.61	0.83
Long Term Debt	10,757,006	8,527,565	6,392,295	4,838,453	3,330,159

85. In support of this improving picture whilst PACI’s current liabilities still exceeded its current assets by \$0.9m as at 30 June 2014, indicating that PACI does not have the current resources available to meet its current liabilities, this is much improved on the position in the previous four years.

86. Therefore whilst I still highlighted concerns about PACI’s ability to continue operating in the future without support from Government due its liquidity risks, if the recent trend continues, and there is no significant capital expenditure required in the short term, I expect that this concern will dissipate within the next reporting cycle particularly when its considered that its long term debt obligations, for which it currently pays over \$2m annually, will be fully paid down in 2017.

PUBLIC SECTOR PENSIONS BOARD (PSPB)

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

Exhibit 13 – PSPB Financial Performance and Position 2009-10 to 2013-14

Statement of Accumulated Plan Benefits	Year ending 30 June 2010	Year ending 30 June 2011	Year ending 30 June 2012	Year ending 30 June 2013	Year ending 30 June 2014
Accumulated Plan Benefits – Actuarial Valuation	456,329,000	494,849,000	494,849,000	494,849,000	494,849,000
Net Assets Available	281,397,000	340,782,000	357,756,000	413,338,000	484,824,000
Fund Deficit	(174,932,000)	(154,067,000)	(137,093,000)	(81,511,000)	(10,025)

Statement of Changes to Net Assets Available for Benefits	As at 30 June 2010	As at 30 June 2011	As at 30 June 2012	As at 30 June 2013	As at 30 June 2014
Contributions	29,497,000	29,485,000	29,631,000	42,227,000	37,198,000
Benefits Paid to Participants	26,535,000	27,066,000	29,971,000	25,516,000	29,923,000
Net Pensions	2,962,000	2,419,000	(340,000)	16,711,000	7,275,000
Investment Income	35,749,000	65,227,000	21,270,000	44,802,000	67,031,000
Investment Expenses	2,224,000	2,445,000	2,744,000	3,943,000	4,335,000
Net Investment Income	33,525,000	62,782,000	18,526,000	40,859,000	62,696,000
Operating Income	819,000	554,000	128,000	135,000	149,000
Operating Expenses	3,867,000	3,035,000	3,050,000	3,561,000	3,624,000
Net Operating Loss	(3,048,000)	(2,481,000)	(2,922,000)	(3,426,000)	(3,475,000)
NET INCREASE IN ASSETS	33,439,000	62,720,000	15,263,000	54,144,000	66,496,000

88. Exhibit 13 shows that the fund deficit has decreased over the last five years, largely due to the performance of the plan's investments. However the actuary determined that a continuation of the current level of contributions to the defined benefit plan (close to 12% of salaries) was 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) would be insufficient to meet annual benefit payments and expenses by 2013. As indicated in Exhibit 13 this position has not been reached as the Government made additional contributions in 2012-13 and 2013-14 of \$15.7m and \$10.1m respectively.
89. The actuary further stated that the parliamentary pension 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.
90. 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

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

91. Note 14 to the financial statements describe that the 2011 actuarial valuation report was tabled and accepted in the Legislative Assembly on 11 December 2013. However as the recommended rates of contributions in the 2011 report had not been gazette, both the contributions received and contributions receivable in the PSPB's 2013-14 financial statements were reflective of the 2005 actuarial valuation report when the rates of contribution were last approved.
92. At the time the PSPB's 2013-14 financial statements were approved the 2014 actuarial valuation was nearing completion. It is now finalized and this will have a significant negative impact on the fund deficit that will require to be addressed.

UNIVERSITY COLLEGE OF THE CAYMAN ISLANDS (UCCI)

93. The UCCI reported a deficit in 2013-14 of \$117k which is an improvement of \$0.3m on the performance in 2012-13. If the re-measurements of the defined benefit pension obligations of the UCCI were excluded the UCCI broke even in 2013-14 on an operating basis. The most significant factor in the improvement in financial performance was an increase in total revenues over the prior year of around \$0.5m, although expenses also increased by just over \$0.2m. Exhibit 15 provides details of UCCI's financial performance for the last five years and specific information on its financial position.

Exhibit 15 – UCCI’s Financial Performance and Position 2009-10 to 2013-14

Statement of Financial Performance	Year ending 30 June 2010	Year ending 30 June 2011	Year ending 30 June 2012	Year ending 30 June 2013	Year ending 30 June 2014
Revenues	3,342,733	3,033,592	3,159,555	2,771,663	2,947,118
Govt Output payments	3,924,982	4,048,383	4,231,440	3,905,976	4,248,542
Total Revenues	7,267,715	7,081,975	7,390,995	6,677,639	7,195,660
Expenses	7,879,821	8,058,809	6,945,896	7,088,432	7,313,125
Net Income/(Loss)	(612,106)	(976,834)	445,099	(410,793)	(117,465)
Statement of Financial Position	As at 30 June 2010	As at 30 June 2011	As at 30 June 2012	As at 30 June 2013	As at 30 June 2014
Shareholder Equity	3,706,706	2,949,495	3,395,016	3,258,627	5,567,856
Accumulated Deficit	(981,996)	(1,639,707)	(1,155,608)	(1,533,112)	(1,650,577)
Current Assets	1,664,814	1,079,934	1,333,547	1,417,769	1,427,583
Current Liabilities	1,814,233	1,576,276	1,436,611	1,465,915	792,778
Current Ratio	0.92	0.69	0.93	0.97	1.8

94. The subsidy provided by the Government for the year ending 30 June 2014 was \$4.2m. This has remained fairly consistent over the last five years, varying by only \$0.3m over that period. Whilst there was a slight increase in revenues from other sources, such as tuition fees, of \$170k in 2013-14 on the prior year, the overall trend over the last five years for these revenues has been downward.
95. The financial strain under which the UCCI has been operating has been alleviated to a degree by significant capital contributions from the Government over the last couple of years. In 2012-13 and 2013-14 the UCCI received capital contributions of nearly \$2.7m, the majority of which was in the form of a debt to equity conversion, forgiving long term debts of just over \$2.4m.
96. However, despite this improved position, as the 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. It is likely to face further challenges in ensuring its financial sustainability in the future.
97. Finally under the University College Law the UCCI is required to balance its expenditure and revenues taking one year with another, in other words to maintain a surplus. The UCCI has struggled to meet this provision of the Law over recent years. However it should be noted that for the year ending 30 June 2014 the re-measurement of the defined pension benefit was a significant factor.

GOVERNANCE AND INTERNAL CONTROL ISSUES

98. The effective and efficient production of reliable and credible financial information is predicated on sound governance, risk management 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.

99. 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.

100. Audits of the financial statements are designed primarily to provide opinions on the financial statements, and are not designed to identify all matters or deficiencies in the internal control environments of audited entities, or uncover instances of fraud and wrongdoing.

101. However in our audit's, we have identified a number of significant concerns around governance, internal control, and financial management and reporting, which we have reported to the entities through individual *"Reports to those Charged with Governance (Governance Reports)"*. Whilst these issues have not ultimately impacted on the opinions I have issued on the financial statements, they have impacted on the timeliness of financial reporting, and potentially have had a significant negative impact on the effective and efficient use of resources, and the achievement of results.

102. In the following paragraphs we highlight the more significant themes that we have identified across the SAGC's. Details about the matters raised at individual SAGC's can be found in their Governance Reports which are or will soon be available on our website (www.auditorgeneral.gov.ky).

ORGANISATIONAL CAPACITY

103. The organisational capacity of a number of entities to establish effective financial management, governance, risk management 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. For example a number of entities have challenges in ensuring the appropriate segregation of duties. This leads to increased risks of error, fraud, mismanagement and abuse and reduces the likelihood that timely and reliable financial statements are produced.

104. For example at some of the smaller entities we reported a larger number of issues, which whilst not individually significant, reflected their challenges in maintaining a sound system of internal control. These included:

- Auditor Oversight Authority;
- Cayman Islands National Museum;
- Electricity Regulatory Authority;
- Information Communication and Technology Authority; and
- National Drug Council.

105. The EY report commissioned by the Government considered some of the challenges and opportunities related to this, and we look forward to seeing how the Government takes forward the potential solutions to address organizational capacity.

RISK MANAGEMENT

106. The majority of entities do not have in place robust arrangements for managing risk. Risk management is a key element of a robust internal control environment as it enables directors and managers to effectively manage the risks to the achievement of the organizations objectives, and also take well informed decisions about the actions they need to take. Without effective arrangements in place an entity faces the risk that it will fail in the achievement of objectives, or that they will be delivered at much greater cost.

107. As part of risk management entities should consider the risk of fraud, ensuring that they have mechanisms for identifying and responding to fraud risk factors, including the implementation of a fraud policy and fraud response plan.

ROLE OF BOARDS AND MANAGEMENT

108. 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.

109. Over 2012-13 and 2013-14 we continued to identify and report issues in respect of the effective governance of entities, and challenges with the roles and responsibilities of boards and executive management. These kinds of issues have a negative impact on entities and their ability to deliver effective and efficient services/activities.

110. For example, one specific issue that impacted the ability of the CIDB to operate effectively was the absence of a board for the whole reporting period of 2013-14, effectively compromising the ability of the CIDB to deliver its mandate. This also highlighted broader issues about how boards are appointed.

AUDIT COMMITTEE

111. Generally accepted good practice in the management of public resources is the establishment of Audit Committees within entity's to provide assurance on risk management, governance and internal control to the Chief Executive Officer and the Board. Effective audit committees can provide objective advice and insights into a public entity's strategic and organisational risk management framework, as well as identifying potential improvements to governance and internal control practices.

112. At present a few entities have established Audit Committees. SAGC's need to consider putting in place independent Audit Committees that can provide the entity with the required assurance through a process of constructive challenge.

SUPPORTING DOCUMENTATION

113. The quality of financial statement submissions and the supporting documentation has been a significant issue for a number of years, and has directly affected the opinions that I have issued. There has been improvement in recent years but there are still entities and areas where documentation is weak, and where it takes SAGCs significant time to provide appropriate and sufficient evidence delaying the conclusion of the audit and the issuance of the financial statements. Therefore it is important that SAGCs continue to work on improving their documentation and ensuring that all balances and transactions are properly supported by appropriate and sufficient evidence prior to submitting their draft financial statements to my Office by 31 August.

114. I would remind SAGCs that under the code of ethics for professional accountants that it is the responsibility of Chief Financial Officer's to present financial statements in accordance with the applicable financial reporting framework, and to maintain information that:

- describes clearly the true nature of business transactions, assets or liabilities;
- classifies and records information in a timely and proper manner; and
- represents those acts accurately and completely in all material respects.

FRAUD AND CORRUPTION

115. During our 2010/11 audit of the HSA we identified indications of possible fraud in the procurement of the Real Time Adjudication – Electronic Verification System (RTA-EVS) Project. At that time due to the sensitivity of the information, it was not considered appropriate to report the matter to the Board and the Legislative Assembly. However, I made an official report to the Anti-Corruption Commission as required under the Anti-Corruption Law, and I am now able to report this matter as it is a matter of public information.

116. For the audits from 2010/11 to the present, we have satisfied ourselves that the financial transactions involving the RTA-EVS Project have been reflected fairly in the accounting records and financial statements of the Authority. This financial reporting conclusion is obviously notwithstanding the concerns we reported to the Anti-Corruption Commission about the potential misuse of public money.

VALUATION OF PROPERTY PLANT AND EQUIPMENT (PPE)

117. There are presently inconsistent accounting policies being applied across SAGCs in respect of the valuation of property, plant and equipment. A few entities value their PPE using the revaluation model, including the HSA, while the majority of others use the cost model. Whilst both models are allowed under accounting standards and the different accounting policies have not impacted on the individual entity audit opinions, at a group level accounting policies require to be applied consistently across the group. The Government has adopted the revaluation model for the valuation of PPE at an entire public sector level and therefore individual entity's accounting policies require to be consistent with this. Therefore any entities with significant PPE will require to amend their accounting policies and undertake a revaluation of their PPE. This will in particular impact entities such as CIAA, CAL, Cayman Turtle Farm, UCCI, the Port Authority and the Water Authority.

TRAVEL POLICIES

118. Not all entities have documented travel policies to guide and manage these sensitive expenditures. Entities should consider implementing the Government travel policy.

RECEIVABLES AND LOANS

119. We identified a number of entities that struggle to collect monies due to them either through accounts receivable or the repayment of loans. The most significant examples are:

- the outstanding receivables due from CAL to CIAA continues to grow and has now reached \$17.6m;
- the significant write offs of patient receivables and allowances for bad debts at HSA;
- the level of delinquency of tenants at the NHDT; and
- the level of delinquency of loans made by CIDB. The majority of new loans during 2012-13 and 2013-14 (82% and 76% respectively) were restructures of existing loan by October 2014 87% of these restructured loans were more than 31 days delinquent.

EMPLOYEE AND BOARD REMUNERATION ISSUES

120. We found examples of control weaknesses around the management of payroll in a few entities. Additionally we found some examples of employee contractual terms being outside established policies or other working norms. For example we found:

- an employee of an SAGC receiving a second significant sign-on bonus at the end of a first contract period and was also paid 6% above the maximum on the requisite pay scale;
- a senior IT manager who works for an SAGC remotely from the USA with no business case to demonstrate how this benefited the SAGC; and
- retiring staff at the CIAA also receiving a severance package in addition to their pension.

121. With respect to Board member remuneration this is an area where we continue to see significant variation and inconsistency. We found examples of entities with no clear policy on board remuneration and retrospective changes to board fees.

COMPLIANCE WITH LAWS AND REGULATIONS

122. We found a number of examples of non-compliance with relevant laws and regulations. For example we found instances of procurements not being carried out in accordance with the Financial Regulations. In particular we continue to find sole source procurements which were not competitively tendered. Whilst in certain circumstances these may be appropriate there were no documented justifications and formal approvals for not following a competitive process.

123. Other examples of non-compliance included:

- MACI not complying with the cash reserve requirements of the *MACI Law (2008 Revision)* and the Merchant Shipping (Registration fees) Regulations (2006) for the year ending 30 June 2013;
- PACI not complying with the Port Regulations (2011 Revision) as it was unable to charge tender fees due to an existing agreement with the FCCA; and
- UCCI not meeting the requirement to balance its expenditure and revenues taking one year with another under the University College Law.

CONCLUSION

124. This report provides a summary of our audits of the statutory authorities and government companies of the Cayman Islands Government for 2012-13 and 2013-14.

125. Whilst there are still some significant challenges to be overcome, the SAGC's have continued to make good progress in the last two years. They have nearly reached the position where the backlog of prior year financial statements has been cleared, and it is not expected that any SAGC financial statements for 2013-14 will receive an adverse opinion or a disclaimer of opinion.

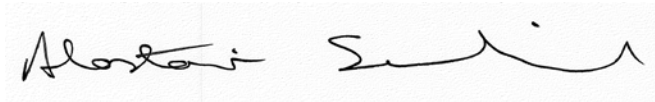
126. However, whilst the story is one of progress, there is still some way to go to achieving accountability as expected by accounting standards and as envisioned in the *Public Management and Finance Law* to ensure the effective stewardship of, and accountability for, public resources. In particular I have raised ongoing concerns about:

- impediments to timely completion of audits and public issuance of financial statements;
- weaknesses in the internal control environments and governance of certain entities creating increased risks of mismanagement and abuse;
- the capacity of some of the smaller entities to implement effective financial management, governance and internal control arrangements;
- delays in tabling entity reports and making results public; and
- the financial strain that a number of entities face.

127. SAGC's are now better placed to achieve the accountability expected by the PMFL, but it will still require a lot more work if it is to be achieved, in particular if the statutory timescales of the PMFL are going to be met. There remains considerable room for improvement in the governance, internal controls and financial management of a number of entities. Senior officials need to ensure that they have in place appropriate systems that provide them with assurance regarding the stewardship and use of public funds they are responsible for, and that as much value is being extracted from the public purse as possible, in particular within those entities that are under financial strain.

128. For progress to continue towards the ultimate objective of restoring financial accountability, the Government should now set clear targets for all SAGCs achieving accountability as required by the PMFL, in both the short and medium term, and require them to provide regular reports to the Government and the Legislative Assembly on the progress that has been made on achieving those targets.

129. I strongly recommend that the Legislative Assembly take note of my findings in this report and act promptly to ensure the Deputy Governor and his senior officials take action to provide proper accountability for the use of public funds and mitigate the risks and opportunities for loss.



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

25 September 2015

APPENDIX A – STATUS OF THE 2013-14 AUDITS

Entity	Date Audit Completed or Progress	Audit Opinion	Tabled in the Legislative Assembly
Auditor Oversight Authority	31 October 2014	Unqualified	15 April 2015
Cayman Airways Limited	15 May 2015	Unqualified	
Cayman Islands Airport Authority	In Progress		
Cayman Islands Development Bank	22 April 2015	Unqualified	
Cayman Islands Monetary Authority	31 October 2014	Unqualified	15 April 2015
Cayman Islands National Museum	26 June 2015	Qualified	
Cayman National Cultural Foundation	17 October 2014	Unqualified	15 April 2015
Cayman Islands Stock Exchange	31 October 2014	Unqualified	
Cayman Turtle Farm (1983) Ltd.	29 October 2014	Qualified	12 August 2015
Children & Youth Services Foundation	20 May 2015	Qualified	
CINICO	Substantially Complete		
Civil Aviation Authority	6 November 2014	Qualified	15 April 2015
Electricity Regulatory Authority	31 October 2014	Unqualified	19 June 2015
Health Services Authority	Finalised	Qualified	
Information and Communications Technology Authority	31 October 2014	Unqualified	19 June 2015
Maritime Authority of the Cayman Islands	31 October 2014	Unqualified	27 November 2014
National Drug Council	27 October 2014	Unqualified	
National Gallery of the Cayman Islands	30 October 2014	Qualified	
National Housing Development Trust	30 April 2015	Unqualified	12 August 2015
National Roads Authority	30 October 2014	Unqualified	19 June 2015
Port Authority of the Cayman Islands	31 October 2014	Qualified	12 August 2015
Public Service Pensions Board	31 October 2014	Unqualified	8 December 2014
Segregated Insurance Fund	9 June 2015	Unqualified	
Sister Islands Affordable Housing Development Corporation	1 June 2015	Unqualified	
Tourism Attractions Board	Substantially Complete		
University College of the Cayman Islands	30 October 2014	Unqualified	
Water Authority of the Cayman Islands	31 October 2014	Unqualified	19 June 2015

APPENDIX B – STATUS OF THE 2012-13 AUDITS

Entity	Date Audit Completed or Progress	Audit Opinion	Tabled in the Legislative Assembly
Auditor Oversight Authority	28 February 2014	Unqualified	25 June 2014
Cayman Airways Limited	5 August 2014	Unqualified	15 April 2015
Cayman Islands Airport Authority	Finalised	Unqualified	
Cayman Islands Development Bank	3 July 2014	Unqualified	24 October 2014
Cayman Islands Monetary Authority	31 October 2013	Unqualified	9 April 2014
Cayman Islands National Museum	12 September 2014	Qualified	13 August 2015
Cayman National Cultural Foundation	31 October 2013	Unqualified	27 November 2014
Cayman Islands Stock Exchange	25 October 2013	Unqualified	9 April 2014
Cayman Turtle Farm (1983) Ltd.	24 October 2013	Qualified	26 Feb 2014
Children & Youth Services Foundation	20 May 2015	Qualified	
CINICO	23 March 2015	Unqualified	
Civil Aviation Authority	28 October 2013	Qualified	9 April 2014
Electricity Regulatory Authority	31 October 2013	Qualified	11 September 2014
Health Services Authority	31 March 2015	Qualified	
Information and Communications Technology Authority	31 October 2013	Unqualified	11 September 2014
Maritime Authority of the Cayman Islands	29 October 2013	Unqualified	9 April 2014
National Drug Council	29 October 2013	Unqualified	
National Gallery of the Cayman Islands	31 October 2013	Qualified	30 Jan 2014
National Housing Development Trust	9 October 2014	Unqualified	27 November 2014
National Roads Authority	29 October 2013	Unqualified	27 November 2014
Port Authority of the Cayman Islands	31 October 2013	Unqualified	11 September 2014
Public Service Pensions Board	7 August 2014	Unqualified	8 December 2014
Segregated Insurance Fund	31 October 2013	Unqualified	30 Jan 2014
Sister Islands Affordable Housing Development Corporation	4 April 2014	Disclaimed	15 April 2015
Tourism Attractions Board	Substantially Complete		
University College of the Cayman Islands	30 October 2013	Qualified	
Water Authority of the Cayman Islands	3 July 2014	Unqualified	26 June 2014

APPENDIX C - AUDIT OPINION DEFINITIONS

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 D – SUPPORTING FINANCIAL ANALYSIS

STATEMENT OF FINANCIAL POSITION

Table 1: Key Balances and Ratio as at 30 June 2014

Entity	Net Current Assets	Current Ratio	Net Total Assets	Equity Injections	Non-Current Debt/Loans
Auditor Oversight Authority	91,043	1.45	100,000	0	0
Cayman Airways Limited	(48,302,768)	0.12	(50,521,808)	5,100,000	24,575,932
Cayman Islands Airport Authority ¹	40,716,539	11.38	59,076,320	0	405,330
Cayman Islands Development Bank	(16,603,009)	0.44	5,410,248	1,500,000	10,177,402
Cayman Islands Monetary Authority	4,448,000	1.05	2,328,000	0	0
Cayman Islands National Museum	435,988	4.02	2,739,683	0	0
Cayman National Cultural Foundation	(216,238)	0.58	4,348,983	0	0
Cayman Islands Stock Exchange	1,743,259	13.05	2,029,939	0	0
Cayman Turtle Farm (1983) Ltd.	(4,341,897)	0.42	7,477,787	15,564,162	17,931,737
Children & Youth Services Foundation	1,063,754	14.71	1,099,862	0	0
CINICO ¹	17,360,067	2.22	17,360,067	2,657,411	0
Civil Aviation Authority	6,084,280	2.67	4,890,846	0	0
Electricity Regulatory Authority	1,289,817	5.03	1,307,719	0	0
Health Services Authority ¹	16,947,809	1.58	77,441,606	849,567	1,631,312
ICTA	1,832,631	18.71	1,932,569	0	0
Maritime Authority	3,568,213	6.12	3,012,226	0	0
National Drug Council	329,194	7.91	342,709	0	0
National Gallery	180,558	2.62	3,079,067	0	0
National Housing Development Trust	759,000	1.57	2,519,000	2,992,000	16,979,000
National Roads Authority	2,951,638	2.45	4,116,056	0	0
Port Authority	(879,733)	0.82	42,340,289	0	3,330,159
SIADHC	994	21.29	1,701,000	0	0
Tourism Attractions Board ¹	1,169,702	7.20	11,484,965	0	0
UCCI	634,805	1.80	5,567,856	2,426,318	0
Water Authority	11,164,723	2.95	64,392,854	0	10,236,626
				31,089,458	85,267,498

¹ Unaudited figures from the draft financial statements

STATEMENT OF FINANCIAL PERFORMANCE

Tables 2 to 4 present details of individual SAGCs reported results over the three years 2009-10 to 2013-14. Readers should bear in mind the caveats highlighted in paragraph 36 of the main report.

Table 2: Net Profit/Loss or Surplus/Deficit reported by SAGCs over the five years 2009-10 to 2013-14

Year Ending	30-Jun-10	30-Jun-11	30-Jun-12	30-Jun-13	30-Jun-14
Auditor Oversight Authority			(9,644)	9,644	0
Cayman Airways Limited	(10,438,552)	(4,865,745)	(4,348,672)	(5,725,207)	(1,983,060)
Cayman Islands Airport Authority ¹	5,827,980	5,914,447	4,059,827	(3,831,232) ¹	4,854,919 ¹
Cayman Islands Development Bank	(701,160)	(777,664)	(766,880)	(486,834)	61,692
CIMA	189,000	814,000	114,000	(188,000)	684,000
Cayman Islands National Museum	(292,981)*		(761,240)**	(371,116)	4,496
CNCF	(174,100)	(215,514)	(202,195)	(191,406)	(99,235)
Cayman Islands Stock Exchange	164,573	382,052	405,925	105,271	257,039
Cayman Turtle Farm (1983) Ltd.	(8,350,801)	(7,963,705)	(8,134,494)	(7,484,252)	(7,516,306)
CAYS	57,797	13,316	113,011	206,473	323,611
CINICO ¹	3,505,939	(3,042,574)	(2,635,890)	3,542,473	4,333,490 ¹
Civil Aviation Authority	1,649,237	1,864,047	2,033,328	2,212,330	2,812,092
Electricity Regulatory Authority	318,358	326,602	480,187	307,479	286,796
Health Services Authority ¹	6,240,213	(244,111)	(4,609,703)	(5,622,853)	1,048,186 ¹
ICTA	(61,691)	19,603	232,883	186,722	181,069
Maritime Authority	(272,631)	(133,897)	(156,452)	(377,717)	782,671
National Drug Council	(987)	49,523	14,664	147,541	(29,977)
National Gallery	148,537	455,096	339,124	(85,620)	(108,488)
NHDT	(4,103,909)	(1,461,694)	(1,394,000)	(1,558,000)	(1,237,000)
National Roads Authority	(649,705)	(614,674)	(4,169)	(97,541)	304,055
Port Authority	(1,856,417)	414,174	548,998	378,000	1,971,976
SIADHC	(85,000)	27,000	5,000	(35,000)	(104,000)
Tourism Attractions Board ¹	229,481	328,110	57,980	(87,050) ¹	(60,831) ¹
UCCI	(612,106)	(976,834)	445,099	(410,793)	(117,465)
Water Authority	3,438,101	3,474,487	1,423,925	3,808,611	1,879,657
Total	(5,830,824)	(6,213,955)	(12,739,744)	(15,648,077)	8,529,387

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

¹ Unaudited figures from the draft financial statements

Table 3: Expenses reported over the five years 2009-10 to 2013-14

Year Ending	30-Jun-10	30-Jun-11	30-Jun-12	30-Jun-13	30-Jun-14
Auditor Oversight Authority			53,586	169,632	288,682
Cayman Airways Limited	66,849,044	67,668,088	72,397,116	75,478,193	75,647,771
Cayman Islands Airport Authority ¹	18,267,222	17,823,823	20,065,478	28,302,586 ¹	21,715,836 ¹
Cayman Islands Development Bank	3,970,632	3,860,538	3,835,230	3,386,735	2,398,051
Cayman Islands Monetary Authority	16,913,000	17,673,000	18,296,000	18,885,000	19,214,000
Cayman Islands National Museum	3,003,751*		2,387,528**	1,166,395	1,060,570
Cayman National Cultural Foundation	993,255	1,033,502	954,408	943,110	968,656
Cayman Islands Stock Exchange	1,319,689	1,090,731	1,269,303	1,341,282	1,377,822
Cayman Turtle Farm (1983) Ltd.	14,344,057	13,178,107	13,745,366	13,860,298	13,556,614
Children & Youth Services Foundation	2,153,005	1,946,896	2,153,266	2,064,353	1,910,870
CINICO ¹	47,089,907	52,571,217	57,510,677	60,057,363	59,262,328 ¹
Civil Aviation Authority	3,170,405	2,944,304	3,573,087	4,074,194	4,112,175
Electricity Regulatory Authority	474,932	535,557	596,883	768,156	679,404
Health Services Authority ¹	77,765,015	83,712,158	90,307,001	99,538,253	100,143,946 ¹
ICTA	1,601,749	1,546,550	1,440,946	1,513,953	1,597,885
Maritime Authority	8,691,175	9,145,349	9,139,968	9,237,394	8,823,202
National Drug Council	494,158	452,161	451,831	434,707	574,764
National Gallery	485,795	545,976	750,991	903,727	983,190
NHDT	5,557,437	2,805,791	2,671,000	2,904,000	2,349,000
National Roads Authority	11,652,414	12,597,888	11,272,896	10,809,614	9,272,010
Port Authority	19,446,617	18,205,935	18,401,758	19,115,365	17,951,426
SIADHC	565,000	59,000	75,000	902,000	156,000
Tourism Attractions Board ¹	2,755,030	2,832,136	3,002,733	3,118,815 ¹	3,113,896 ¹
UCCI	7,879,821	8,058,809	6,945,896	7,088,432	7,313,125
Water Authority	23,525,526	23,926,272	25,992,541	25,877,876	27,467,944
Total	338,968,636	344,213,788	367,236,903	391,771,801	381,939,167

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

¹ Unaudited figures from the draft financial statements

Table 4: Output revenue from Government sources reported over the five years 2009-10 to 2013-14

Year Ending	30-Jun-10	30-Jun-11	30-Jun-12	30-Jun-13	30-Jun-14
Auditor Oversight Authority			43,942	179,276	288,682
Cayman Airways Limited	10,500,000	15,000,000	15,770,000	18,169,183	17,805,808
Cayman Islands Airport Authority ¹	0	0	0	0 ¹	0 ¹
Cayman Islands Development Bank	577,872	577,875	577,875	566,768	574,768
CIMA	15,750,000	16,850,000	17,350,000	14,865,000	9,865,000
Cayman Islands National Museum	2,410,255*		1,311,460#	620,527	887,173
CNCF	691,915	617,840	579,655	567,231	679,394
Cayman Islands Stock Exchange	0	0	0	0	0
Cayman Turtle Farm (1983) Ltd.	0	0	0	0	0
CAYS	2,100,000	1,828,413	2,206,809	2,178,000	2,178,000
CINICO ²	19,927,842	21,030,540	22,639,738	27,136,398	27,039,000 ²
Civil Aviation Authority	0	0	0	0	0
Electricity Regulatory Authority	67,061	37,017	120,000	119,861	(342)
Health Services Authority ¹	29,251,105	28,904,429	24,806,045	29,688,927	31,527,400 ¹
ICTA	345,101	329,367	339,526	340,091	345,551
Maritime Authority	1,271,654	1,280,652	1,093,942	394,028	432,270
National Drug Council	490,672	485,993	455,958	552,958	541,138
National Gallery	481,000	450,000	422,000	409,745	434,119
NHDT	589,696	550,111	658,000	642,000	645,000
National Roads Authority	9,856,382	11,665,918	10,940,790	9,030,789	9,183,356
Port Authority	0	0	0	0	0
SIADHC	66,000	85,000	79,000	74,000	55,000
Tourism Attractions Board ¹	2,169,556	2,208,025	2,090,591	2,075,076 ¹	2,033,555 ¹
UCCI	3,924,982	4,048,383	4,231,440	3,905,976	4,248,542
Water Authority	0	0	0	0	0
Total	100,471,093	105,949,563	105,672,829	111,518,834	108,763,414

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

¹ Unaudited figures from the draft financial statements

² Approved budget figure

APPENDIX E – INDIVIDUAL ENTITY REPORTING

1. This appendix provides details of the specific matters that were included as qualifications in the Audit Reports of individual entities, as already highlighted in paragraphs 5 to 14 of the main report. Also provided are the matters of emphasis or other matters that were included in the Audit Reports (opinion) for each SAGC, in other words those matters which we considered important enough to draw to the attention of the users of the financial statements but which did not result in a qualification.
2. With respect to the outstanding audits for 2012-13 and 2013-14, no commentary is provided as it is not appropriate to report the final outcomes of these audits before the audit report is signed.

AUDITOR OVERSIGHT AUTHORITY (AOA)

3. Whilst I did not qualify my opinion on AOA's financial statements for the years ending 30 June 2013 and 2014, I highlighted one matter for the attention of readers in my report for the year ending 30 June 2013.
4. My Office highlighted that comparative information should be disclosed in respect of the previous period for all amounts reported in the financial statements. The AOA commenced operations on 1 May 2012, as such the comparative information disclosed in the financial statements for year ending 30 June 2013 reflected two months of operations ending 30 June 2012. The financial results for the AOA for the two months ended 30 June 2012 were not audited.

CAYMAN AIRWAYS LTD. (CAL)

5. Whilst I did not qualify my opinion on CAL's financial statements for the years ending 30 June 2013 and 2014, I highlighted one matter for the attention of readers for both years 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.

CAYMAN ISLANDS DEVELOPMENT BANK (CIDB)

6. Whilst I did not qualify my opinion on CIDB's financial statements for the years ending 30 June 2013 and 2014, in both years I highlighted for the attention of readers a matter in my audit report regarding future debt obligations.

7. As at 30 June 2014 the financial statements indicate that the bank has credit facilities totaling \$34.7m that is guaranteed by the Cayman Islands Government, which mature between April 2015 and January 2016. The bank intends to repay \$8.3m of this debt by 30 June 2015, and subsequent to the year, the bank has obtained a one year extension to 27 April 2016 of US\$20m for the debt which matured on 27 April 2015.
8. For the year ending 30 June 2014 I also highlighted in my audit report that the financial statements indicate that impaired loans to customers stood at \$10.9m, representing 30 % of the overall loan portfolio excluding allowances for credit losses.

CAYMAN ISLANDS NATIONAL MUSEUM (CINM)

9. For the years ending 30 June 2013 and 2014, CINM's financial statements were qualified on the same two matters:
 - during the year ending 30 June 2012, the Museum changed the system that maintained the property, plant and equipment register and this resulted in a material adjustment to accumulated depreciation and accumulated surplus. We were unable to form an opinion on the accuracy of this adjustment or the property, plant and equipment recorded in the statement of financial position as a result. This issue has not been resolved for the years ending 30 June 2013 and 2014 and therefore we have continued to be unable to form an opinion on the accuracy of property, plant and equipment recorded in the statement of financial position and the related impact on the accumulated surplus and equity of the Museum as at 30 June 2013 and 2014; and
 - the Museum derives a portion of its cash receipts from various sources, the completeness of which is not susceptible to independent audit verification. Accordingly, our verification of such cash receipts was limited to the amounts recorded in the records of the Museum and we were not able to determine whether any adjustments might be necessary to cash receipts from fundraising income and donations, and the increase in cash and cash equivalents for the years ending 30 June 2013 and 2014.
10. An emphasis of matter was also included in our Audit Report for both financial years highlighting that CINM is dependent upon the financial support of the Cayman Islands Government to enable it to meet its obligations as they fall due and to continue operating. My opinion was not qualified in respect of this matter.

CAYMAN TURTLE FARM (1983) LTD. (CTF)

11. For the years ending 30 June 2013 and 2014, the CTF's financial statements were qualified on the same three matters as in the previous years. However it should be noted in respect of the year ending 30 June 2014 that two of these matters related to opening balances and should therefore be resolved in future reporting periods. These matters 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 2013 includes an amount for pensions payable of \$1,196,000. This amount is based on the 30 June 2012 estimate provided by the Public Service Pensions Board. In the absence of an actuarial valuation as at 30 June 2013, I was unable to opine on the amount for pensions payable in the financial statements for the year ending 30 June 2013. For 30 June 2014 the provision for pensions payable is fairly stated, however due to the issue with the opening balance as at 1 July 2013 I was unable to form an opinion on the related change recognized in the statement of comprehensive loss; and
- from 2007 to 2013, the Cayman Islands Government, has paid insurance premiums on behalf of CTF in the amount of \$5.1 million which were recorded as liabilities in the financial statements at 30 June 2013. These payments were, 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. Therefore as at 30 June 2013 these balances were misclassified. As at 30 June 2014 these amounts have been correctly classified as contribution from the shareholder.

12. An emphasis of matter was also included for both financial years 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.

CHILDREN & YOUTH SERVICES FOUNDATION (CAYS)

13. The Foundation derives a material portion of its income from donations, fund raising events and similar activities, the completeness of which is not susceptible to audit. My audit opinion for the years ending 30 June 2013 and 2014 were 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.

CIVIL AVIATION AUTHORITY (CAA)

14. The opinion of the CAA was qualified for the years ending 30 June 2013 and 2014 in relation to the past service pension liability. As at 30 June 2013 the management of CAA were discussing their understanding of the particulars supporting the valuation recommended by the actuary as they were not confident with the supporting information used to prepare the report. As a result I was unable to determine whether the amount reported as a past service pension liability was fairly stated.

15. With respect to the year ending 30 June 2014 the past service pension liability is correctly stated. However due to the issues with the balances reported in previous periods I was unable to determine whether any adjustments would have been required to the statement of comprehensive income for the year ending 30 June 2014. This qualification matter should be resolved in future reporting periods.

HEALTH SERVICES AUTHORITY (HSA)

16. For the year ended 30 June 2013 I issued a qualified opinion on the financial statements and for 2013-14 I also intend to issue a qualified opinion as I was unable to:

- satisfy myself that the reported patient services fees 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 to the completeness and valuation of accounts receivables as at 30 June 2014 as a result of a \$2m unreconciled balance between the cash received from CINICO and the receivables recorded in the revenues system. This issue arose subsequent to the introduction of the new patient adjudication system in May 2012 which was intended to streamline the claim settlement process and resulting cash receipt process; 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.

17. For the year ending 30 June 2013 I also qualified the financial statements for two further matters as I was unable to:

- satisfy myself of the accuracy, existence and valuation of inventory as at 30 June 2013. 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
- satisfy myself as the adequacy of the note disclosures related to pensions as, management was not able to present certain information required by IAS 19 in relation to its Pension Scheme for the year then ended as the information was not available from the actuary.

18. For both years, without further qualifying I also included an Other Matter in my audit report in respect of a breach by the HSA of the *Health Services Authority Law* for not maintaining cash reserves at a level no less than estimated expenses for 90 days, as required by sections 7(1) and 18(3,c) of the law

- Under s of the HSA Law, it is required to maintain a cash reserve, which we estimated the HSA was over \$14.0m short in meeting; and

19. For the year ending 30 June 2013 I also highlighted a further two matters in my audit report:

- the HSA reported a net loss of \$2.9m which is contrary to Section 18 3(a) of the HSA law, which requires the HSA's revenues less total expenses to be positive; and
- the uncertainties related to the HSA's post-employment benefits as described in note 20 to the financial statements.

MARITIME AUTHORITY OF THE CAYMAN ISLANDS (MACI)

20. For the years ending 30 June 2013 and 2014, whilst I did not qualify MACI's financial statements in my audit report, I did highlight one other matter in respect of a contingent liability related to MACI's operations in the United Kingdom.

21. In my audit reports I 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. However I have now highlighted this matter for four years and no progress has been made by the entity.

NATIONAL GALLERY OF THE CAYMAN ISLANDS (NGCI)

22. The NGCI derives a significant portion of its revenue through cash receipts from fund raising and donations. My audit opinion was qualified for the years ending 30 June 2013 and 2014 as I was unable to determine the completeness of revenues recorded because these cash receipts were not subject to the kind of controls that permit independent audit verification.

23. Without further qualifying my opinions for the years ending 30 June 2013 and 2014, I also highlighted one other matter in my reports 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.

NATIONAL HOUSING DEVELOPMENT TRUST (NHDT)

24. Whilst I did not qualify the opinions on the Trust's financial statements for the years ending 30 June 2013 and 2014, I highlighted one matter in both financial years regarding concerns about the ongoing ability of the NHDT to meet its bond financing and sustain its operations.
25. 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 and outputs sold to Cabinet.

PORT AUTHORITY OF THE CAYMAN ISLANDS (PACI)

26. Whilst my opinion on the financial statements for the year ending 30 June 2013 was unqualified, I qualified my opinion on the PACI's financial statements for the year ending 30 June 2014 in respect of a scope limitation on the valuation of land at the Safe Haven Marina, and the related impact this had on equity and depreciation expense.
27. Included in the books of the Authority is land relating to Safe Haven amounting \$1.45m. In 2009, the land was re-parceled as part of the agreement with a third party to form a Marina. Various pieces of land were in effect swapped between the Authority and the Developer. I was not provided sufficient evidence to be able to conclude that the value of Land and the Marina were fairly stated. Due to this scope limitation I was also not able to verify the extent to which any adjustments, were they to be done, would have an impact on the depreciation expense and the equity of the Authority.
28. Without further qualifying my opinion, I also highlighted two matters in my audit report for both years 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 and \$519,988 for the financial years 2012-13 and 2013-14 respectively 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 years ending 30 June 2013 and 2014 PACI's current liabilities exceeded its current assets by \$2,655,151 and \$879,733 respectively. This condition along with other matters indicated the existence of an uncertainty about PACI's ability to continue to operate. However the position at PACI is improving, and it is also mitigated by the fact that PACI is a 100% government owned entity.

PUBLIC SERVICE PENSIONS BOARD (PSPB)

29. Whilst I did not qualify my opinions for the years ending 30 June 2013 and 2014 I highlighted in my audit report a number of matters for the readers of the financial statements. The following two matters were highlighted in the audit reports for both years:

- 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; and
- 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 pension 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.

30. For the year ending 30 June 2013 I also highlighted a matter in respect of the separate accounting of pension funds. The PSPB pooled the funds into one set of financial statements and did not identify or disclose the investments and administrative expenses for each of the three pension plans: Public Service; Parliamentary; and Judicial. We believed 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. In the financial statements for the year ending 30 June 2014 this matter was resolved.

SEGREGATED INSURANCE FUND (SIF)

31. Without qualifying my opinion, I note that the Segregated Insurance Fund is not required to present budget information in the financial statements as required under IPSAS 24 "Presentation of Budget information in Financial Statements" for entities preparing its Financial Statements under IPSAS. This information is not presented as the Segregated Insurance Fund as a separate entity does not produce an annual budget statement for which it is held publicly accountable. This is a key requirement of IPSAS 24 for the presentation of budget information in financial statements.

SISTER ISLANDS AFFORDABLE HOUSING DEVELOPMENT CORPORATION (SIAHDC)

32. I did not qualify my opinion on the financial statements for the year ending 30 June 2014. However for the year ending 30 June 2013 I issued a disclaimer of opinion as a result of the board appointed in 2013 not being able to make the required representations as to the fairness of the presentation of information in those financial statements, as was also the case in the prior six years.

WATER AUTHORITY (WA)

33. I did not qualify my opinion on the financial statements for the year ending 30 June 2014. However for the year ending 30 June 2013 I qualified my opinion on the WA's financial statements as I was unable to determine whether the amount of \$1,520,000 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 2013 as the Public Service Pension Board had not provided an actuarial valuation for that time period.

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