



CAYMAN ISLANDS

2013/2014 Session of the

LEGISLATIVE ASSEMBLY

REPORT

of the

STANDING

PUBLIC ACCOUNTS COMMITTEE

on the Report of the
Office of the Auditor General on the
Financial and Performance Reporting – Statutory Authorities
and Government Companies for the year ending 30 June 2011

Laid on the Table of Legislative Assembly on this

day of

2014

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**REPORT OF THE STANDING
PUBLIC ACCOUNTS COMMITTEE
ON THE REPORT
OF THE OFFICE OF THE AUDITOR GENERAL ON
THE FINANCIAL AND PERFORMANCE REPORTING –
STATUTORY AUTHORITIES AND GOVERNMENT COMPANIES
FOR THE YEAR ENDING 30 JUNE 2011**

SUMMARY REPORT

1. REFERENCE

The Standing Public Accounts Committee of the Cayman Islands Legislative Assembly, established under Standing Order 77, met to consider the Report of the Office of the Auditor General on the Financial and Performance Reporting – Statutory Authorities and Government Companies for the year ending 30 June 2011, prepared and submitted by the Auditor General.

2. PAPER CONSIDERED

In accordance with the provision of Standing Order 77(1), the Committee considered the following paper referred to it by the House:

- Report of the Office of the Auditor General on the *Financial and Performance Reporting – Statutory Authorities and Government Companies for the year ending 30 June 2011*

3. CHAIRMAN AND MEMBERS OF THE COMMITTEE

The following Members of the Legislative Assembly are the present Members of the Standing Public Accounts Committee – who dealt with this Report of the Auditor General:

Mr Roy McTaggart, JP, MLA – Chairman

Hon McKeeva Bush, JP, MLA – Deputy Chairman

Mr Winston Connolly, MLA – Member

Mr Joseph Hew, MLA – Member

Capt Eugene Ebanks, MLA – Member

4. MEETINGS OF THE COMMITTEE

The Committee reviewed the Minutes of five (5) meetings held by the Committee, to consider this Report:

- (i) Thursday, 11th July 2013
- (ii) Thursday, 19th September 2013 (*with Witnesses in Chamber*)
- (iii) Friday, 27th September 2013 (*with Witnesses in Chamber*)
- (iv) Thursday, 16th January 2014
- (v) Tuesday, 15th April 2014

5. ATTENDANCE OF MEMBERS

The attendance of Members at meetings is recorded in the Minutes of Proceedings which are attached to and form part of the Report.

6. PERSONS IN ATTENDANCE

In accordance with Standing Order 77(8), the following persons were in attendance at the meeting:

- Mr Alastair Swarbrick, Auditor General – Office of the Auditor General
- Mr Garnet Harrison, Deputy Auditor General – Office of the Auditor General
- Mr Martin Ruben, Audit Principal of Performance Auditing – Office of the Auditor General
- Mr Patrick Smith, Financial Audit Manager – Office of the Auditor General
- Ms Anne Owens, Senior Assistant Financial Secretary – Ministry of Finance and Economic Development
- Mrs Debra Welcome, Accountant General – Treasury Department
- Mrs Gloria Myles, Deputy Accountant General – Treasury Department

7. WITNESSES CALLED BEFORE THE COMMITTEE

In accordance with the provisions of Standing Order 77(4), the Committee may invite any public officer or member of staff of a non-Government organisation to give information or explanation to assist the Committee in the performance of its duties. The following person appeared before the Committee to give evidence:

- Mrs Debra Welcome, Accountant General – Treasury Department
- Ms Tracy Ebanks, General Manager – Cayman Islands Development Bank (CIDB)

- Mr Fabian Whorms, President and Chief Executive Officer – Cayman Airways
- Mr Philip Rankin, Chairman of the Cayman Airways Board – Cayman Airways
- Mr Paul Tibbetts, Executive Vice President and Chief Financial Officer – Cayman Airways
- Mr Darren Ali, Internal Auditor – Cayman Airways
- Mr Kerith McCoy, Acting Chief Executive Officer – Cayman Islands Airport Authority (CIAA)
- Ms Melantha Wright, Financial Controller – Cayman Islands Airport Authority (CIAA)
- Ms Tusa Kudzanayi, a temp Certified Public Accountant, Finance Department – Cayman Islands Airport Authority (CIAA)
- Mr Gilbert Connolly, Chief Executive Officer – Tourism Attraction Board
- Mr Paul Hurlston, Managing Director – Port Authority
- Mr James Parsons, Chief Executive Officer – Port Authority
- Mr Donavon Hutchinson, Accountant – Port Authority
- Mr Julio Ramos, General Manager – National Housing Development Trust (NHDT)
- Mr Alan Jones, Chief Officer – Planning, Agriculture, Housing and Infrastructure
- Ms Lizzette Yearwood, Chief Executive Officer – Health Services Authority
- Mr Matthew Tibbetts, Chief Financial Officer Designate – Health Services Authority
- Ms Heather Boothe, Chief Financial Officer – Health Services Authority
- Ms Faith Ebanks, Acting Managing Director – Public Service Pensions Board (PSPB)
- Mr Barton Solomon, Senior Manager for Financial Reporting – Public Service Pensions Board (PSPB)
- Ms Melanie Ebanks-Jackson, Director Designate of Plan Administration – Public Service Pensions Board (PSPB)

8. PRACTICE AND PROCEDURE OF THE COMMITTEE (S.O 77 (6))

The Committee agreed that in accordance with the provisions of Standing Order 77 (6), all meetings at which witnesses are invited to provide information, should be held in an open forum. This decision was taken to promote openness and accountability in Government.

9. INTRODUCTION AND PAC COMMENTS

9.01 The Auditor General's Report is a Report on the outcome of the audits of the statutory authorities and government companies (SAGCs) for the year ended 30 June 2011 that was carried out in Grand Cayman. The objective of the Report is to provide information about the status of financial reporting in SAGCs for the year ending 30 June 2011 and contains the following:

- A summary of the results of the audits for the 2010/11 financial statements of the SAGCs;
- The key issues that have impacted the audit opinions issued on individual SAGCs' financial statements;
- The status of outstanding 2010/11 financial statement audits; and
- Other significant governance, internal control and financial management issues that have been identified through the audits of financial statements and reported to the individual entities.

9.02 The Committee notes with concern that while the Auditor General continues to see improvements in the quality and timeliness of the financial statements presented for the SAGCs, a number of smaller entities continue to struggle to present reliable and credible financial statements for audit. The Committee recommends that government take steps to remedy the situation. One potential solution is for these entities to enter into a shared service arrangement with other SAGCs or government entities to avail them of the expertise needed to ensure the quality and timeliness of financial statements.

9.03 The Committee also notes with concern the number of other significant issues that have come to the attention of the Auditor General during the course of his audits and identified as common themes across the audits, namely:

- Governance – board members are unclear about the role of boards and management; and
- Internal control weaknesses.

9.04 The Committee notes the Auditor General's observation that many of these issues are remediable if the organization spent the time necessary to ensure their internal control framework was properly implemented and operating

ACKNOWLEDGEMENT

The Committee is most appreciative of the efforts of the Auditor General and his staff in presenting a very fair, detailed and informative Report and for the support, assistance and constructive advice given throughout its deliberations.

The Committee also thanks the staff of the Legislative Assembly for the assistance provided.

REPORT OF THE COMMITTEE TO THE HOUSE

The Committee agrees that this Report be the Report of the Standing Public Accounts Committee to the House on the *Report of the Office of the Auditor General on the Financial and Performance Reporting – Statutory Authorities and Government Companies for the year ending 30 June 2011*.

Mr Roy McTaggart, JP, MLA – Chairman

Hon McKeeva Bush, JP, MLA – Deputy Chairman

Mr Winston Connolly, MLA – Member

Mr Joseph Hew, MLA – Member

Capt Eugene Ebanks, MLA – Member



Legislative Assembly of the Cayman Islands

THE STANDING PUBLIC ACCOUNTS COMMITTEE

MINUTES

Meeting

Thursday, 11th July 2013

9:00am

Minutes of meeting of the Standing Public Accounts Committee held in the Large Committee Conference Room of the Legislative Assembly Building, Grand Cayman on Thursday, 11th July 2013 at 9:00am.

Present: Mr Roy McTaggart, MLA – Chairman
Hon McKeeva Bush, MLA – Member
Mr Winston Connolly, MLA – Member
Mr Joseph Hew, MLA – Member

Mrs Zena Merren-Chin – Clerk of the Legislative Assembly
Ms LeSanneo McLaughlin – Clerk of the Public Accounts Committee

Persons in Attendance:

Mr Garnet Harrison, Acting Auditor General – Office of the Auditor General
Mr Patrick Smith, Financial Audit Manager – Office of the Auditor General
Mr Martin Ruben, Audit Principal of Performance Auditing – Office of the Auditor General

1. Meeting Call to Order and Welcome

There being a quorum present (Standing Order 77(2) refers), the Chairman called the Meeting to order at 9:15am.

The Chairman gave a brief welcomed to the Members and thanked them for attending the Public Accounts Committee ("PAC") meeting. He also welcomed the Acting Auditor General and thanked him along with Mr Smith and Mr Ruben for attending the meeting. He informed the Members that all PAC meetings will begin on time.

Mr Garnet Harrison welcomed the Members as the newly nominated Public Accounts Committee on behalf of the Auditor General and introduced the other members of the staff from the Office of the Auditor General.

Mr Harrison explained to the Committee the basic procedures and functions of how the Auditor General's Reports are currently prepared and published. He further explained that the

Office of the Auditor General would sit in on PAC meetings where witnesses are called. He also suggested how to resolve issues in regards to reports being laid on the table in a timely manner going forward.

2. Resignation of Member

The Chairman advised that Mr Alva Suckoo had resigned from the Public Accounts Committee and that a new Member will have to be nominated during the next House sitting.

Hon McKeeva Bush expressed his concerns and made mention of the practice of the PAC whereby the Chair has always been from the Opposition while some Members were from Government to keep a balance in the Committee. He indicated that he did not consider it appropriate for someone from the Government side to be the Chair of the PAC. The Committee noted Hon Bush's objection.

3. Approval of the Auditor General's Office Invoices

The Committee Members asked for an explanation on each amount stated on the Invoices listed below –

- Invoice No. 206062 dated 5th March 2013 in the amount of CI\$54,339.15;
- Invoice No. 206075 dated 9th April 2013 in the amount of CI\$49,085.95;
- Invoice No. 206095 dated 6th May 2013 in the amount of CI\$48,478.38;
- Invoice No. 206116 dated 5th June 2013 in the amount of CI\$34,802.42.

The Acting Auditor General gave a brief explanation on the amounts stated on the Invoices.

Hon Bush expressed his dissatisfaction with the information provided on the Invoices and wished to have a more detailed description of the items listed and presented on the Auditor General's expenses. Hon Bush indicated that he would wish to receive information on the external consultants as to their qualifications and the circumstances under which they are hired. He also wanted a list of times and dates of everyone who worked on a particular report. Hon Bush requested that he be allowed to view the physical documents showing such expenditures and information. In addition he wanted information on (i) any payment made out (ii) proof of travel expenses (iii) detailed information on the work carried out in relation to a report. Hon Bush indicated that he agrees that the Auditor General's Office must be paid but does not agree with the lack of supporting documentation to prove such amounts for the work carried out.

Mr Winston Connolly indicated that he was fine with the current breakdown presented by the Office of the Auditor General however suggested that they add appendages going forward.

Mr Joseph Hew agree on the requirement for information on external contacts as the Committee is a ruling as third party on the Audit of the Auditor General's expenditures.

On a motion moved by Mr Winston Connolly and seconded by Hon McKeeva Bush the Invoices were **approved**.

The Committee agreed that going forward that the Office of the Auditor General would provide information on the work carried out by consultants and the invoices paid out to such consultants.

The Committee agreed to defer the request by Hon Bush for more details on the Auditor General's Invoices to enable the Chairman to take advice on the reasonableness of the request.

4. PAC Reports for Consideration

a Outstanding Reports (previous term)

- Road Paving Expenditure in Cayman Brac: Public Interest Report - April 2012
- Management of Major Capital Projects – June 2012
- Financial and Performance Reporting – Progress Update as at October 2012

b Latest Reports (current term)

- Management of Air Ambulance Services: Public Interest Report - June 2013
- Restoring Financial Accountability: A Time for Change? - June 2013
- Financial and Performance Reporting: Statutory Authorities and Government Companies for the year ending 30 June 2011
- Consultation on our Future Performance Audit Programme – June 2013

c Review and Discussion of Reports:

1) Road Paving Expenditure in Cayman Brac: Public Interest Report - April 2012

The Clerk advised that the Report had been considered by the previous PAC however they had agreed to obtain a legal opinion from the Attorney General before tabling the Report in the House. They had not obtained the opinion before dissolution of the House. The Committee agreed that they would obtain the legal opinion before proceeding with the Report. The Chairman is to write to the Attorney General.

2) Management of Major Capital Projects – June 2012

Mr Martin Ruben gave a summary of the Report. The Committee agreed to call the following persons as witnesses to provide information on the Report:

- Franz Manderson, Deputy Governor – Head of Civil Service
- Alan Jones, Chief Officer – Planning, Lands, Agriculture, Housing and Infrastructure
- Jim Scott, Project Manager – Government Admin Building
- Leyda Nicholson-Makasare, Deputy/Acting Chief Officer – Ministry of Planning, Lands, Agriculture, Housing and Infrastructure
- Mary Rodrigues, Chief Officer – Ministry of Education, Employment & Gender Affairs

3) Financial and Performance Reporting – Progress Update as at October 2012

The Office of the Auditor General recommended that the hearing on this Report be deferred until the June update is issued in August 2013. The Committee agreed.

4) Management of Air Ambulance Services: Public Interest Report - June 2013

The Committee agreed to carry the report forward and call the following persons as witnesses to provide information on the Report:

- Lizzette Yearwood, Chief Executive Officer – Health Services Authority (HSA)

- Jennifer Ahearn, Chief Officer – Ministry of Health, Sports, Youth & Culture
- Lonny Tibbetts, Chief Executive Officer – Cayman Islands National Insurance Company (CINICO)
- Kerith McCoy, Acting Chief Executive Officer – Cayman Islands Airport Authority (CIAA)

5) Restoring Financial Accountability: A Time for Change? - June 2013

Mr Ruben gave a summary of the Report. The Committee agreed to call the following persons as witnesses to provide information on the Report:

- Franz Manderson, Deputy Governor – Head of Civil Service
- Ken Jefferson, Financial Secretary – Ministry of Finance & Economic Development
- Sonia McLaughlin, Deputy Financial Secretary / Chief Officer – Ministry of Finance & Economic Development
- Anne Owens, Senior Assistant Financial Secretary & Information Manager – Ministry of Finance & Economic Development
- Michael Nixon, Senior Assistant Financial Secretary – Ministry of Finance & Economic Development

6) Financial and Performance Reporting: Statutory Authorities and Government Companies for the year ending 30 June 2011

Mr Ruben gave a summary of the Report. The Committee agreed to call the following persons as witnesses to provide information on the Report:

- Debra Welcome, Accountant General – Treasury Department
- Lizzette Yearwood, Chief Executive Officer – Health Services Authority (HSA)
- Fabian Whorms, President & Chief Executive Officer – Cayman Airways
- Paul Hurlston, Managing Director – Port Authority
- Kerith McCoy, Acting Chief Executive Officer – Cayman Islands Airport Authority (CIAA)
- Tracy Ebanks, General Manager – Cayman Islands Development Bank (CIDB)
- Gilbert Connolly, Chief Executive Officer – Tourism Attraction Board
- Julio Ramos, General Manager – National Housing Development Trust (NHDT)
- Leyda Nicholson-Makasare, Deputy /Acting Chief Officer – Ministry of Planning, Lands, Agriculture, Housing and Infrastructure
- Jewel Evans-Lindsay, Managing Director – Public Service Pensions Board (PSPB)

7) Consultation on our Future Performance Audit Programme – June 2013

Mr Harrison indicated that the purpose of the Report is to provide the Members of the Public Accounts Committee and the general public with an overview of proposed performance audit topics. The Audit Office is consulting on which of the reports they should focus on over the next three (3) years. The Members are to provide their views directly to the Auditor General.

Mr Ruben noted the process of the reports. Once the Auditor General completes a report, it is provided to the Public Accounts Committee Members and the general public; witnesses are called if the PAC determines it necessary; the Committee will prepare a report with recommendations to Government and lay the report on the Table of the House. The Government then has three months to respond by way of Government Minutes, which are laid on the Table of the House. Mr Ruben expressed his concerns regarding the lack of Government Minutes in response to the PAC Reports.

5. Any Other Business

The Office of the Auditor General Auditors

The Chairman advised that the Audit Office was in the process of hiring Auditors to audit their financials. This was being done by a tender process. The bids would be forwarded to the Members along with the Auditor General's recommendation. The Committee would then approve the Auditors to be hired by way of Round Robin.

Meetings in Chamber

Committee agreed that GIS would record and broadcast the meetings with witnesses. The Committee also agreed to not hold their meetings in camera unless the Chairman deemed it necessary.

PAC Minutes

The Committee agreed that the verbatim transcripts of the witnesses' evidence should form part of the minutes.

6. Scheduling of Next Meeting

The Committee agreed that witnesses would be invited to attend to provide information on the Audit General's Reports on the following days:

Wednesday, 31st July 2013 from 9:00am – 4:00pm

- *Management of Major Capital Projects – June 2012*
- *Management of Air Ambulance Services: Public Interest Report - June 2013*

Thursday, 1st August 2013 from 9:00am – 4:00pm

- *Financial and Performance Reporting: Statutory Authorities and Government Companies for the year ending 30 June 2011*

Wednesday, 7th August 2013 from 9:00am – 12:00pm

- *Restoring Financial Accountability: A Time for Change? - June 2013*

The witnesses would be invited to attend at half hour intervals.

7. Adjournment

There being no further business, the Chairman adjourned the meeting at 12:20pm.



Legislative Assembly of the Cayman Islands

THE STANDING PUBLIC ACCOUNTS COMMITTEE

MINUTES

Meeting held *with witnesses*

Thursday, 19th September 2013

9:30am

Minutes and verbatim transcript of the meeting of the Standing Public Accounts Committee held in the Chamber of the Legislative Assembly Building, Grand Cayman on Thursday, 19th September 2013 at 9:30am.

Present:

Mr Roy McTaggart, MLA – Chairman

Hon McKeeva Bush, MLA – Member

Mr Winston Connolly, MLA – Member

Mr Joseph Hew, MLA – Member

Capt Eugene Ebanks, MLA – Member

Mrs Zena Merren-Chin – Clerk of the Legislative Assembly

Ms LeSanneo McLaughlin – Clerk of the Public Accounts Committee

In Attendance:

Mr Alastair Swarbrick, Auditor General – Office of the Auditor General

Mr Garnet Harrison, Deputy Auditor General – Office of the Auditor General

Mr Martin Ruben, Audit Principal of Performance Auditing – Office of the Auditor General

Mr Patrick Smith, Financial Audit Manager – Office of the Auditor General

Ms Anne Owens, Senior Assistant Financial Secretary – Ministry of Finance & Economic Development

Mrs Debra Welcome, Accountant General – Treasury Department

Mrs Gloria Myles, Deputy Accountant General – Treasury Department

1. Reference

In accordance with Standing Order 77(4) witnesses were invited to appear before the Committee to discuss various issues set out in the following Auditor General's Report:

(a) Financial and Performance Reporting - Statutory Authorities and Government Companies for the year ending 30 June 2011

2. Meeting to Order

There being a quorum present (Standing Orders 77(2) refers), the Chairman called the meeting to order at 9:43am.

3. Welcome

The Chairman gave a brief welcome to the Members of the Public Accounts Committee and the staff of the Auditor General's Office, Treasury Department and the Ministry of Finance and commenced the meeting with a Prayer by Mr Winston Connolly.

4. Report of the Auditor General: –

Performance Audit Report of the Office of the Audit General on the Financial and Performance Reporting – Statutory Authorities and Government Companies for the year ending 30 June 2011

The Auditor General made an opening statement on the above mentioned Report. The Chairman then invited witnesses into the Chamber and asked them to state their names, the persons attending with them, if any and department or organization they were representing. The Chairman then opened the floor for opening statements from the witnesses preceded by questions from the Public Accounts Committee Members.

The following persons appeared in their named capacity as witnesses before the Committee:

- *Debra Welcome, Accountant General – Treasury Department*
- *Tracy Ebanks, General Manager – Cayman Islands Development Bank (CIDB)*
- *Fabian Whorms, President & Chief Executive Officer – Cayman Airways*
- *Philip Rankin, Chairman of the Cayman Airways Board – Cayman Airways*
- *Paul Tibbetts, Executive Vice President & Chief Financial Officer – Cayman Airways*
- *Darren Ali, Internal Auditor – Cayman Airways*
- *Kerith McCoy, Acting Chief Executive Officer – Cayman Islands Airport Authority (CLAA)*
- *Melantha Wright, Financial Controller – Cayman Islands Airport Authority (CLAA)*
- *Tusa Kudzanayi, a temp Certified Public Accountant, Finance Department – Cayman Islands Airport Authority (CLAA)*
- *Gilbert Connolly, Chief Executive Officer – Tourism Attraction Board*
- *Paul Hurlston, Managing Director – Port Authority*
- *James Parsons, Chief Executive Officer – Port Authority*
- *Donavon Hutchinson, Accountant – Port Authority*
- *Julio Ramos, General Manager – National Housing Development Trust (NHDT)*
- *Alan Jones, Chief Officer – Planning, Agriculture, Housing and Infrastructure*
- *Lizette Yearwood, Chief Executive Officer – Health Services Authority*
- *Matthew Tibbetts, Chief Financial Officer – Health Services Authority*
- *Heather Boothe, Chief Financial Officer – Health Services Authority*

At the conclusion of meeting with the witnesses the Chairman thanked the Members of the Committee and the staff of the Audit Office, Treasury Department and the Ministry of Finance for attending.

5. Any Other Business

There was no other business.

6. Adjournment

There being no other business the meeting was adjourned by the Chairman at 4:15pm.

OFFICIAL VERBATIM TRANSCRIPT**STANDING PUBLIC ACCOUNTS COMMITTEE****THURSDAY****19 SEPTEMBER 2013****9.43 AM***2nd Sitting with witnesses***FINANCIAL PERFORMANCE AND REPORTING****STATUTORY AUTHORITIES AND GOVERNMENT COMPANIES – JUNE 30 2011**

Verbatim transcript of proceedings of the Standing Public Accounts Committee held in the Chamber of the Legislative Assembly Building on 19 September 2013 at 9:43 am. This meeting was recorded and aired on CIGTV.

Present: Mr Roy McTaggart, JP, MLA – Chairman
Mr Winston Connolly, MLA – Member
Mr Joseph Hew, MLA – Member
Hon McKeeva Bush, MLA – Member
Capt Eugene Ebanks, MLA – Member
Mrs Zena Merren-Chin – Clerk of the Legislative Assembly
Ms LeSanneo McLaughlin – Clerk of the Public Accounts Committee

In Attendance: Mr Alastair Swarbrick – Auditor General, Office of the Auditor General
Mr Garnet Harrison – Deputy Auditor General, Office of the Auditor General
Mr Martin Ruben – Manager Audit Office, Office of the Auditor General
Mr Patrick Smith – Audit Principal, Performance Auditing, Office of the Auditor General
Ms Anne Owens – Senior Assistant Financial Secretary, Ministry of Finance & Economic Development
Mrs Debra Welcome – Accountant General, Treasury Department
Mrs Gloria Myles – Deputy Accountant General, Treasury Department

The Chairman: [recording starts mid sentence] . . . Members in particular of the Public Accounts Committee and to the Auditor General's Office, those of you from the Treasury and the Ministry of Finance, proceedings of the Public Accounts Committee are now resumed this morning.

I would like to ask Mr. Winston Connolly if he would to open us with the word of prayer.

PRAYER

Mr. Winston C. Connolly, Jr.: Thank you, Mr. Chairman.

Let's bow our heads and close our eyes. Dear Heavenly Father, we thank you for bringing us back into this honourable House. We ask and beseech that you guide our words and actions today and that in all things we do it your heavenly glory. We are tasked with the work of the country and we hope that we can do that diligently, effectively and, at the end of it, we can glorify your name. In Jesus' name we ask. Amen.

The Chairman: Thank you.

We have one report on our agenda for today entitled "Financial Performance and Reporting —

Statutory Authorities and Government Companies for the Year ending June 30, 2011".

Mr. Auditor General, I would like to invite you at this time if you would like to make a statement regarding the report itself.

Mr. Alastair Swarbrick, Auditor General: Thank you, Mr. Chairman.

Mr. Chairman, Members of the Public Accounts Committee, ladies and gentlemen, thank you for the opportunity to provide some initial comments on my report regarding Financial and Performance Reporting—Statutory Authorities and Government Companies for the Year ending 30 June 2011.

The purpose of this report is to provide information about the status of financial reporting and statutory authorities in government companies. It provides an overview of the audit of opinions issued on the financial statements for the year ending 30 June 2011, including details on the timelines of reporting and the quality of the information being provided by these entities. It further provides information on government's internal control and financial management issues identified through the course of our financial audits, which did not directly—

The Chairman: Auditor General . . . *[addressing a witness]* Could we ask if you would wait outside until we summon you?

Go ahead sir.

Mr. Alastair Swarbrick: It further provides information on governance, internal control and financial management issues identified through the course of our financial audits which are not directly an impact on the audit opinions I issued, but which were reported to the boards and management of the entities due to their significance for the effective, efficient and ethical management of the entities.

The annual reports and financial statements of individual entities of Government are the key documents that enable the Legislative Assembly and the citizens of the Cayman Islands to hold statutory authorities and government companies accountable for the use of public funds.

In December 2010, I delivered my first report on the preparation on tabling of financial reports. And over the subsequent two and a half years I have provided the Legislative Assembly with reports on the progress of government and its related entities have made in preparing and tabling these fundamental accountability documents.

A significant amount of time and resources has been devoted by government and my office to clear the backlog of prior year financial statements while undertaking audits on more current financial statements. We have now reached a position where it is possible to begin reporting effectively in more detail on the outcomes of the audits of individual entities. This report is the first step in producing general reports each year on the outcomes of the most recent financial year.

Whilst this report is focus on the statutory authorities and government companies for the fiscal year ending 30th June 2011, I intend to issue a similar report for ministries and portfolios in due course. Similar reports will be produced in future fiscal years, and as the completion of entity financial statements continue to be more-timely I will be able to issue these reports of the Legislative Assembly closer to the fiscal year end.

With respect to the statutory authorities and government companies' financial reports for the fiscal year ending 30th June 2011, I saw improvements in both timeliness and quality. However, whilst the story is one of progress, there is still a significant way to go before accountability as envisioned in the Public Management and Finance Law (PMFL) is effectively achieved.

The picture across individual entities is varied with some performing very well while others are still struggling. In this report I highlight some general concerns regarding the timely production and completion of credible financial and performance information, including: the financial statements for only eight of the

twenty-six entities were completed in line with the statutory timetable; and three entities are still to be completed over two years after the fiscal year end.

Whilst a significant number of annual reports and financial statements have recently been tabled in the Legislative Assembly, there have been significant delays in tabling by the responsible ministry. A number of entities have only been tabling their financial statements in the Legislative Assembly and not annual reports discussing their wider performance as required under the PMFL. And there were significant weaknesses in the internal control environments in governance arrangement of certain entities.

Therefore, for progress to continue being made towards the ultimate objective of restoring accountability, I believe the Legislative Assembly has an important role to play to hold the administration to account by ensuring that entities continue to improve the quality of their financial statement submissions and underlying information and strengthen their internal control environments and overall governance arrangements.

I look forward to working with the Government and individual entities as they continue on the path of financial reporting and restoring accountability for the use of public funds. Finally, I look forward to assisting the Public Accounts Committee over the course of this hearing by providing additional information and clarification when necessary.

Thank you.

The Chairman: Thank you, sir.

I would now like to go ahead and open, I think, at this point. Do any members have questions of the Auditor General with regard to his opening statement and what he has shared with us?

[No audible reply]

The Chairman: If that is the case, then, I would like to go ahead and call our first witness, Ms. Debra Welcome from the Accountant General's Office.

I have no problem with you sitting right where you are. I just want to make sure members of the Committee themselves are comfortable with that. Okay.

Members are free to begin questioning our witness, Ms. Welcome. But before we do that, Ms. Welcome, could I ask you to just speak into the microphone and state your name and position?

Mrs. Debra Welcome, Account General: Debra Welcome, Accountant General, Treasury Department.

The Chairman: Thank you.

Ms. Welcome, can you give us an update with regard to where you are in the process of having the government's consolidated core government accounts completed?

Mrs. Debra Welcome: Thank you, Mr. Chairman.

The 2010/11, 2011/12 and 2008/09 and 2009/10 have all been submitted to the Audit Office for auditing. The 2010/11 was submitted within the statutory deadline, 31st October 2011, and the 2011/12 was also submitted within the statutory deadline.

The 2008/09 and 2009/10, however, were a part of the cleanup of the backlog submitted to the Audit Office in February of this year.

The Chairman: Now my understanding, if I could . . . a few years ago there was a law passed in this Assembly effectively foregoing the audits of some several years, Auditor General?

Mr. Alastair Swarbrick: Mr. Chairman, that is correct. It enabled the accounts for the years up to 2007/08 to be presented to the Legislative Assembly without being audited.

The Chairman: Okay.

Mr. Alastair Swarbrick: So, Ms. Welcome is talking about the subsequent years to that in terms of the submissions for the EPS [Entire Public Sector].

The Chairman: Okay.

Well, Ms. Welcome I am just curious to understand the reasoning for the delay in getting some of these reports completed because, effectively, we are still looking at . . . what, four years into the . . . you know, effectively the fiscal year end. And the audits themselves . . . do you have any ideas with regard to what might be causing those delays?

Mrs. Debra Welcome: Mr. Chair, I would think that the Auditor General may want to comment on those delays. We recognise, though, the challenges that the Audit Office will have in substantiating some of the numbers that are being reported. I can say that we are near the stage now of signing off the 2010/11 financial statements, and I've had communication from the Audit Office just last night about that.

Mr. Chairman: Okay.

Can I ask you then Auditor General?

Mr. Alastair Swarbrick: I can confirm that I actually put pen to paper last night in terms of the 2010/11 financial statements, which I will report in due course in terms of the actual opinion that was issued.

In terms of the 2011/12, from our perspective most of the work has completed in discussions with the Treasury and the Ministry of Finance regarding our potential opinion in regard to that.

With respect 2008/09 and 2009/10, we believe we can wrap those up fairly quickly based on the

opinion that has been issued on 2010/11 and the reality of being able to try to audit those effectively. So, I hope that in the next month or two we will have all four years wrapped up. Obviously, 2011/12 is dependent on further discussions with our colleagues in Treasury and the Ministry.

The Chairman: Thank you sir.

Mr. Hew?

Mr. Joseph X. Hew: Mr. Chairman, through you, good morning, Ms. Welcome.

Ms. Welcome, are you the person responsible for getting these reports to be tabled in a timely fashion?

Mrs. Debra Welcome: Mr. Chairman, through you, no, I am not. I believe that responsibility is with each ministry and portfolio.

Mr. Winston C. Connolly: Mr. Chairman, through you.

Ms. Welcome, what is the overall plan to get us back on track, so to speak? Can you explain what has taken place since the Auditor General's report, and what steps are being done? And also, do you have a statement prepared for today that you would want to read?

Mrs. Debra Welcome: Through you, Mr. Chair, in terms of what is preventing us from keeping up to date, I want to say that we are now up to date. And we had significant challenges in the past. Therefore, the reason for the changes to the PMFL to get us over that backlog of reporting which, with so many years delayed, would have little or no significance to the activities at that point and time. In my terminology it would be considered probably useless.

So, to say that the challenges we have had in the past in meeting the deadline is no longer the situation. What our biggest problem is [now] is in getting good information, quality information which can be substantiated for inclusion in the consolidated financial statements.

The Chairman: Ms. Welcome, I do have one other question: You mentioned that in your view it is the responsibility of each Ministry to prepare their financial statements for submission to the Auditor General, but my understanding is that these are consolidated and the Auditor General does issue an opinion on the accounts of core government. Who is responsible for ensuring that consolidation is completed and submitted on time for the Auditor General?

Mrs. Debra Welcome: Mr. Chair, in accordance with section 29(2) of the Public Management and Finance Law, by way of an assumed delegation, the responsibility for the preparation of the consolidated financial

statements lies with my office. The PMFL does not specifically identify the role of the Accountant General, but it speaks to the Ministry of Finance being responsible for certain aspects and, obviously, one would expect that preparation of consolidated financial statements would be in the Treasury.

The Chairman: Then, in your opinion, is this an anomaly within the PMFL that should be or needs to be addressed and corrected?

Mrs. Debra Welcome: No, I don't think so, sir.

The Chairman: Okay.

Hon. W. McKeeva Bush: Mr. Chairman, page 7 and number 18 of the report, the audit talks about completeness of revenues.

The audit office states "**A number of entities derive a significant portion of their revenue through cash receipts . . . that are not subject to the kind of controls that permit independent audit verification. Accordingly, the audits of these revenues were limited to the amount recorded in the accounts and I could not give opinion on how much should have been recorded.**"

Now I don't know if it is the Treasury Department that we need to ask this of or talk to about this, but maybe the Audit Office can say what they tested. Did they confirm that the entity has internal controls in place, such as cash being verified and signed off by another person in the organisation prior to being recorded and deposited to the bank?

As I said, I don't know whether that is the Treasury or specific entities that we need to deal with on that.

The Chairman: Auditor General.

Mr. Alastair Swarbrick: Through you, Mr. Chairman.

This relates to cash donations to some specific sort of charitable donations to certain organisations. And we are not talking vast sums of money in terms of this, but it is prevalent across certain types of organisations, for example, the Gallery, the Museum, the Botanical Park Gardens. They do not have effective systems to actually ensure that what is collected is actually recorded. So, we are talking about the completeness of the income.

We can confirm what is recorded is the income that . . . they have received that income. But whether that is all the income they have received, they have no effective systems in place to ensure that that has been effectively recorded.

The Chairman: Thank you sir.

Hon. W. McKeeva Bush: So the Audit Office did not gain (let's say) comfort on the amount of the donation recorded by the entity?

Mr. Alastair Swarbrick: Mr. Chairman, that is correct sir?

Hon. W. McKeeva Bush: They did not? Did not gain any comfort on the amount of the donation recorded?

Mr. Alastair Swarbrick: Whether all income that had been received had been recorded.

Hon. W. McKeeva Bush: So, it did not have any comfort in that.

Mr. Alastair Swarbrick: No, didn't get any assurance about that.

Hon. W. McKeeva Bush: But this is not the Treasury Department, this is various government companies, for instance?

Mr. Alastair Swarbrick: That's correct sir.

Hon. W. McKeeva Bush: Just need to make it clear.

[Inaudible interjection]

Hon. W. McKeeva Bush: The statutory authorities we are talking about.

And you are not talking about vast sums of money?

Mr. Alastair Swarbrick: Well I can't give you any absolute opinion on that because I was not able to get a complete assurance. But the level of donations . . . well, in terms of the total government, probably not huge.

Hon. W. McKeeva Bush: Not huge.

Mr. Chairman, on page 8, number 23 where he is talking about timeliness of the financial statements, the Audit Office keeps focusing on meeting the reporting deadlines.

Of those submitted on time, what was the quality of their financials compared to those who were a little late in their submissions? As I see it, meeting a reporting deadline is one thing; but the important thing would be the quality of the financial statements as that is what allows the reader (and in this instance, that would be Members of the House or the general public) since all of these reports go out . . . again, I am going to put into the records that I have complained they should not go out before the Members of this House get them. But anyway, that is what allows the reader to get a sense of comfort about the story or the financial statements that the financial statements are tell-

ing, the quality—not whether they were submitted on time.

Mr. Alastair Swarbrick: And the general position is that we have seen improvements in quality of the financial information, but there are still significant improvements to be had.

The picture is variable across entities. Some are providing much better information. We still have significant challenges in getting certain information for some of the entities.

I think the picture in terms of the issues around internal control and the other management issues that we report provide a flavor of the issues that are being found and the challenges that this presents, particularly where the internal control environment is particularly poor and it requires significant additional transaction testing to provide a significant assurance on the financial statements.

So, the picture is mixed still, but it has improved, I think is the message I would say in terms of that.

The Chairman: Okay, thank you sir.

Hon. W. McKeever Bush: Mr. Chairman, I asked that question because in trying to get the financials up to date during 2009 to 2012, one of the recommendations was, *Well, you don't pay this any mind because it is so old.* But the fact is within that grouping that we were looking at and that they claimed would not have any relevance because they are so old, the previous auditor had complained that in one ministry alone \$60 million could not be accounted for. That was Auditor Duguay.

So, while this auditor, I think, was one who made the statement about it being so old and it was not worth it to pay the money to go through them, getting back to the quality again, how do you measure it? How would he measure it in comparison to what was said by the former auditor.

Now he might not want to comment on what the former auditor said, however, the relevance I think is the quality, again. Obviously the staff . . . while he was not here, the staff, I don't think, has changed that much.

Mr. Alastair Swarbrick: In terms of my thoughts in terms of the old financial statements and their relevance, my view was that we had significant issues around getting appropriate information for current years and that needed to be addressed to provide effective accountability as at this time. The old information would have required significant resource and the questions about whether it was actually achievable is another question.

So, the challenges of actually trying to present those for the old years . . . and some of that financial information would have been significantly very chal-

lenging and difficult, whether achievable at all. So, my personal opinion was that to start ensuring effective accountability and transparency for the use of public funds we needed to concentrate on the more current years to try and address those issues. And as we found, even with some of those more current years, we have had real challenges in getting the information effectively to support the financial statements and still had to issue a certain number of disclaimers in relation to those years and adverse opinions and qualified opinions.

Now, as we have reached to this stage we are seeing improvements in the quality as people have more time to devote to more current years and less issues about trying to resolve backlog information, which, in terms of actual effective accountability for this House, would be very challenging as it is so far in the past.

Now in terms of trying to provide some assurance about some of those past transactions, we are trying to undertake some compliance orders off certain key transactions, risks to give some sort of comfort regarding those years. But even that I would have to say is challenging in terms of both the quality of information and the resources available to do it.

The Chairman: Okay.

Mr. Winston C. Connolly: Mr. Chairman, in the report it also sets out some, I guess, concerns over poor financial reporting. At the end of the day, if each ministry is providing this information, whose responsibility is it to kind of tighten up that information or critique whether it is poor or otherwise?

And also, in terms some of the concerns raised on past pension liabilities of related parties, conflicts of interest, who in the government is the lead on that to kind of ensure quality data?

The Chairman: Your question was directed to the Accountant General?

Mr. Winston C. Connolly: Yes.

The Chairman: Okay.

Mrs. Debra Welcome: Mr. Chair, I can speak to the matter about quality data and who is responsible for ensuring that, but I would not be able to speak on the past service pension liability.

Under the Public Management and Finance Law, and the financial regulations, the respective chief officers within the ministries and portfolios are responsible for ledger management. The Treasury periodically carries out reviews of the trial balance of each of those ministries and portfolios. And as a part of our monthly management reporting to Cabinet, we require each ministry and portfolio to provide us with confirmation that their ledger management is up to date,

and that is supposed to be into the Treasury by the fifth working day of each month. But, essentially, the data that resides in the general ledger is the responsibility of the chief officer and chief financial officer in the ministries to maintain good quality.

The Chairman: Auditor General's Office?

Mr. Martin Ruben, Audit Principal, Office of the Auditor General: Mr. Chairman, Martin Ruben, from the Office of the Auditor General. I just want to provide some information.

In the past, the Office of the Auditor General has provided the House with reports on the financial function in general. One of the issues that we have raised in those reports is the leadership of the financial function. Traditionally, the individual, or the organisation that is responsible for preparing financial statements (in this case the EPS Financial Statements of the Government of the Cayman Islands), would have a framework in place to ensure the quality of the information that's provided in that report. Hence, the issue that has been . . . I think you are seeing it here in this discussion here today, that that role of ensuring the quality of financial information for those statements, the EPS Statements of the Government of the Cayman Islands, is unclear in terms of what is being discussed here today.

As the Accountant General has pointed out in the Public Management and Finance Law, the individual chief financial officers, or chief officers in the ministries, are responsible for the reports that they provide to this House. On the other hand, there is a set of financial statements, the consolidated financial statements, that has to be prepared as well. And there is responsibility there to ensure a proper control framework and the information that is provided to this House is timely and of good quality.

So, while we have been reporting as the Office of the Auditor General on the status and the quality of the financial statements that are presented here in the House, we believe there is, if you wish, a gap (we call it), and that is where we have been talking leadership, in terms of ensuring that the House gets the information it needs as to the status of where that reporting is for the EPS, the Entire Public Sector Financial Statements.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, just to follow up on my question. And I guess just based on what the Accountant General said, I guess, what happens when the chief officer isn't up to scratch? Who then decides whether or not the information provided needs to then be revisited? I think it goes back to the leadership that Mr. Ruben talked about. Who has that ability in government right now?

Ms. Anne Owens, Senior Assistant Financial Secretary, Ministry of Finance: Mr. Chairman, Anne

Owens, Senior Assistant Financial Secretary, Ministry of Finance.

Just to answer the Member's question, under the Public Management and Finance Law each chief officer is responsible for the management, or the overseeing, of the development of their management systems, including their financial management systems. The quality of information that comes out of those systems and the reports that they produce lies with the chief officer.

The Treasury Department mainly consolidates the information that is submitted from these individual ministries and portfolios. What is provided to the Treasury Department is mainly consolidated and presented in an EPS consolidated financial statement document.

The Chairman: Mr. Auditor General?

Mr. Alastair Swarbrick: From our perspective this provides challenges in terms of actually effectively auditing the EPS in terms of the individuals responsible for preparing the EPS need to be able to ensure that the information they are providing in that presents fairly the transactions for government. At present, this creates issues in terms of them being able to represent that to us at this time.

There is, from our perspective, a need to have in place a system that provides that they can get assurance that the information that they are consolidating effectively presents fairly the transactions of the individual entities so that they can effectively provide us with that representation that the information they submit to us does effectively present fairly the transactions of the core government, of the consolidated government.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, I guess I am still a bit lost in that.

At some point in time someone has to be held responsible for that information. I guess what I am trying to figure out is if a CO, a chief officer, is consistently not providing good quality data and financial reports, when or who . . . sorry, when and who can decide that in the current PMFL system?

Ms. Anne Owens: Mr. Chairman, it is only at the point of the audit of a ministry or portfolio's financial statements that you will determine the quality of the information that is put forward for auditing. Once again, chief officers are responsible for the quality of information that they put forward in their financial statements.

And just to add to that, chief officers do report to the Deputy Governor. And if it is a performance issue, then it should be addressed at that level, where the quality of information that is coming through in the financial statements is not up to par or not acceptable.

The Chairman: Mr. Auditor General, do you have a comment, or . . .

Mr. Alastair Swarbrick: My view is that Government needs to be assuring itself that the financial information it's getting is effective and credible information. It shouldn't just have to rely on the Auditor to provide that after the fact. I think it is important that Government have in place systems to provide it with assurance that the information it is getting . . . so it comes down to the information that senior officials are actually getting at the end of the day and the elected Government. And if they are not getting good, decent quality information throughout the year, the decisions they will make in terms of the use of those funds and resources will be challenging.

I think in terms of standards and requirements the expectation is that Government has in place the systems and processes to provide itself with the assurance that the information it is using is credible and effective, and that they provide that assurance to themselves.

We come in after-the-fact to a large extent to confirm and validate the information that they have and whether it is of good quality, et cetera. But they have a responsibility themselves to do that.

The Chairman: Okay.

Mr. Bush, I believe you had a question, sir.

Hon. W. McKeeva Bush, Leader of the Opposition: I think Mr. Connolly probably . . . I am going to a different page in the report.

Mr. Winston C. Connolly, Jr.: Yes, again I just wanted to try to get my head around this because what we are seeing is that . . . and one of the reasons we are here is because these financial reports were not done for a series of years and now we're catching up. So what, I guess, I have some concerns with is that a CEO has been allowed to do this year after year after year. There is no accountability or sanction or anything because we are coming from a position where we didn't have the reports in the first place, and finally we are catching up. But there are no checks along the system, so to speak, to correct bad behaviour or incompetence. And I am not saying anyone is.

But what I am saying is where are those checks and balances? And who ultimately has been identified to make that decision in the organisation, because I hear what you are saying in terms of it's the chief officer's responsibility and then, ultimately, the Deputy Governor, in terms of performance. But it seems that a lot can go wrong before any of that takes place and that is in evidence in terms of how long we have waited for financial reports.

What I am looking for is some sort of action plan to deal with the issues raised by the Auditor General in identifying the proper leadership and ac-

countability. Am I right in saying that at this stage there is none other than to just catch up the reports?

Ms. Anne Owens: Mr. Chairman, core government has caught up. In fact, the entire government has caught up in the delivery and submission of their financial statements. The 2012/13 financial statements have a statutory deadline of 31 August 2013. And all agencies within core government and statutory authorities and government companies met that deadline.

We have met that deadline for 2010/11; 2011/12 and now 2012/13. So we have caught up. And we are up to date.

Mr. Winston C. Connolly, Jr.: Sorry, again, Mr. Chairman, it's the poor information, the poor reports that I am zeroing in on. Again, just catching up, but not catching out people that consistently put bad data, or bad financial reports forward.

It seems to me, Mr. Chairman, that if there is no plan and there is no one identified we could just be kicking the can down the road and the quality of that information . . . I don't want to see us saying financial report 2010 to 2013; I want to know that someone has checked it, scrubbed it and said, *This is a quality financial report for 2010 to 2013.*

The Chairman: Mr. Auditor General?

Mr. Alastair Swarbrick: Can I just make one comment in regard to that?

I can confirm that the ministries and portfolios and authorities have all submitted their accounts by the required deadline. But the issue is, then, the ability to audit that information is sometimes very challenging because of the quality of the information or the lack of information at times.

When we come to a report shortly on the ministries and portfolios for the financial year 30 June 2011, you will continue to see that there are one or two entities where the quality of information is—there is no easy way to say it—sometimes abysmal and making it practically impossible to audit some of it.

So, whilst I would like to say that a lot of people have moved a long way forward, there are still some significant issues in some of the information that is being provided. But that has decreased in terms of overall. But we are moving forward, but there are still some significant issues.

Mr. Winston C. Connolly, Jr.: I guess, Auditor General, what I would then ask is, in your opinion, where are we along the process in regard to the issues that you have raised in your report?

Mr. Alastair Swarbrick: If we are concentrating on the statutory authorities and government companies solely, we are talking about their issues, we have

moved forward. They were always in the better position of all the entities. We still move forward. There are, I think, two or three, four, outliers where we have some significant challenges still. Some of the small . . . we still have some ongoing challenges in terms of the Health Services Authority, in terms of, you know, moving that forward in a more timely fashion. That has been moved forward, because their opinions were disclaimed up until 2010. I couldn't actually reach an audit opinion on the financial statements because of some quality issues. As we see in the report we have managed to bring that now to a qualified opinion for 2010/11. So that has moved forward. But there are still significant issues regarding information for those financials.

So, in terms of statutory authorities and government companies, we have moved forward a long way. We are getting closer to being in a reasonably sound position in terms of that. But there is still a way to go.

Ministries and portfolios, again, the evidence is that we have moved forward. The challenges tend to be with the larger ministries where the riskier and greater expenditure was incurred, and we are moving that forward. But there are still at least two of those which are providing significant challenges, and will continue to do so for at least another . . . well, it's difficult to put a timeframe on it. But I would give you another couple of years in terms of those before we get to a reasonable position. But that's speculation.

In terms of the EPS and the questions about how they get the information to include in the consolidation, and there are a number of issues about that. I think it is probably better to talk about that when we bring that report to the House for your consideration so you can see the broader issues around that, rather than just talk about it in this context without the information to hand. But hopefully we are going to move that forward in the near future as well.

The Chairman: Mr. Ruben?

Mr. Martin Ruben: I would just like to add a few comments to what the Auditor General said. His answer was quite complete. I just wanted to add, though, that in response to the Member's question, the Government hasn't got a plan, if you wish, in direct answer to that. There is no clear plan as to, you know, by this date we will have satisfactory financial reporting to the Legislative Assembly. And in that regard, with regard to the information in this report that is before the Committee today, I was only referencing that information. There is also, of course, the information from the ministries and portfolios.

But with regard to the statutory authorities and government companies they represent a bit of a different challenge, if you wish, in terms of putting together the EPS, which is what the responsibility is of the Accountant General. We have, as we have said, a

number of issues that are out there in terms of quality in order to ensure at the end of the day that the EPS financial statements have the quality that the Legislative Assembly is looking for.

So, that is where the question becomes who is responsible for basically ensuring and providing information to the House about the quality of that information. And, again, we are looking . . . as the Auditor General pointed out, we come in after-the-fact to provide assurance on that information, but there should be a process in place to ensure that the quality of that information is provided on a timely basis to prepare the EPS. And somebody needs to be, sort of, if you wish, managing and monitoring that process.

Mr. Alastair Swarbrick: Mr. Chairman, could I just make one more point, please?

The Chairman: Yes.

Mr. Alastair Swarbrick: It is something that I was going to address tomorrow in the report for tomorrow's meeting. But I think the leadership point that Mr. Ruben has brought up is a fundamental one from my perspective.

In the last few years the Deputy Governor and the Financial Secretary have taken action to drive forward the production of the entity financial statements, the individual ministries and portfolios, and the statutory authorities and government companies as a project. But that needs to be engrained within the system personally, it needs to have . . . somebody has to have clear responsibility for ensuring that financial statements are produced and that the Accountant General receives that quality information for consolidation. And that will be an ongoing challenge.

I think there is a clear role there for some clear leadership function within core government to bring that forward, and to take that forward and make that as business as usual.

The Chairman: Mr. Bush, I believe you had some questions?

Hon. W. McKeever Bush, Leader of the Opposition: Yes.

On page 9 of the [report] it speaks about delays in audit completion and says that they are concerned about the time it is taking between the date of the audit work completion and the date of final sign-off of the financial statements.

What are the procedures that the Audit Office uses? Do they give management and board, for instance, a timeframe to respond? And how long do they take to issue their findings? Would the Audit Office provide supporting documentation to management with their findings, for instance?

How can management see the proof that validates their findings?

Mr. Alastair Swarbrick: Mr. Chairman, this is a continual process throughout the audit. As issues are identified they are discussed with the clients and they are provided with the information regarding the findings to validate them.

As required under auditing standards, we are required to report to the management and the board prior to the opinion being signed, and we do with all the issues that we have identified through the audit, including all the misstatements in the financial statements which need to be corrected. And these are adjusted and actioned prior to the opinion, prior to the final submission of the financial statements, to ourselves for sign off.

It is an administrative process, as we go through the process of the financials, but there is a clear cut-off when we report to the individual boards and management on the findings. At that stage I expect that . . . well, up until the 31st of October, the turnaround is very quick. People take action very quickly. Once we fall outside that deadline we would expect, and have that expectation, that we would get responses within two weeks to the issues. But at times we are waiting months, despite follow up. It provides challenges at times.

From my perspective it is more about getting the financial statements to the Legislative Assembly and providing public accountability at that stage. And that's the challenge.

Hon. W. McKeeva Bush, Leader of the Opposition: Mr. Chairman, I didn't . . . if he did, maybe he needs to restate it. Does the Audit Office give management and the boards a timeframe to respond?

Mr. Alastair Swarbrick: We have set the clear expectation that they respond within two weeks after the deadline, after we have sent the report on the audit to them.

Hon. W. McKeeva Bush, Leader of the Opposition: You give them two weeks?

Mr. Alastair Swarbrick: That is the deadline we set in our expectations. Whether that is met or not is not a question.

Hon. W. McKeeva Bush, Leader of the Opposition: But how long do you take to issue the findings?

Mr. Alastair Swarbrick: After we complete the audit we issue the findings straight to them as required under the auditing standards. We are required before we put our opinion on the financial statements to provide them with the details over the key issues that they need to address or consider before signing the financial statements.

Hon. W. McKeeva Bush, Leader of the Opposition: That's with any department or government company that you would audit. You would issue the findings straight after you finish?

Mr. Alastair Swarbrick: Yes.

You have to be aware as well that the findings will be discussed with the client throughout the audit as well, so they should have had a chance to address some of these issues. And they have to have details of the misstatements, the errors in the financial statements, so they can correct the financial statements at the same time.

Hon. W. McKeeva Bush, Leader of the Opposition: Where the audit complains of a matter, extra matters, to a department or a company, do you provide supporting documentation to management of your findings?

Mr. Alastair Swarbrick: We discuss the findings with them as appropriate and provide them with the relevant information. They will agree or disagree, and we will discuss the issues of disagreement, provide relevant information to them as appropriate.

Hon. W. McKeeva Bush, Leader of the Opposition: Sounds right, Mr. Chairman, if only the Audit Office would give everybody, afford everybody, that opportunity to discuss before they write and publish.

The Chairman: Any further questions for the Auditor General or this witness?

[No audible reply]

The Chairman: Ms. Welcome, thank you very much for your testimony. At this point we will move on and call our next witness.

The Committee would like to call Ms. Tracy Ebanks to the meeting. She is the General Manager of the Cayman Islands Development Bank (CIDB).

[Pause]

The Chairman: Good morning, Ms. Ebanks. Thank you for coming along to the Public Accounts Committee meeting this morning.

Could I ask you to speak into the microphone and also if you would state your name and position for the record?

Ms. Tracy Ebanks, General Manager, CEO, Cayman Islands Development Bank: Tracy Ebanks, General Manager, CEO, of the Cayman Islands Development Bank.

The Chairman: Thank you.

Members of the Committee, I leave it to you to question this witness.

Mr. Joseph X. Hew: Good morning, Ms. Ebanks.

Going through the report here, the Auditor General has raised some rather serious matters relating to the financial accounting and reporting for the Cayman Islands Development Bank. Do you have an action plan to address these matters? And at what stage are you with those?

Ms. Tracy Ebanks: Actually, as this report was based on 2011 year end results, if you look at the Auditor General's report you will notice that there is an inclusion in there that clearly states that they found no re-occurrence of these incidences for 2012, as we have mitigated all these issues.

Mr. Joseph X. Hew: I guess I should say congratulations! Well done.

The Chairman: Mr. Connolly?

Mr. Winston C. Connolly, Jr.: Thanks for that answer, Ms. Ebanks.

I think my one question is in terms of your capacity going forward from an organisational standpoint and just in the matter of good financial reporting. Do you think that you have the necessary complement now to do that for years going forward? Or is this still going to be an issue?

Ms. Tracy Ebanks: I am not 100 per cent sure what you want me to answer. As far as the complement of senior management, or that of a board of directors?

Mr. Winston C. Connolly, Jr.: Meaning that . . . you have gotten to a point now where the financial reports are satisfactory. But that was after pretty serious concerns raised by the Auditor General. What I am asking is do you think that going forward you can maintain that timely financial reporting? And do you think you need additional people on board to keep that consistent?

Ms. Tracy Ebanks: No.

The senior management team that is in place there now is responsible for a lot of the tightening of the internal controls and weaknesses that were identified in the report. When a new board has been announced, the bank has a credit committee comprised of three board members and myself. And it also has an audit committee that will review internal controls and procedures. So that is basically the oversight for senior management as well.

Mr. Winston C. Connolly, Jr.: Thank you.

The Chairman: Are there any other questions for this witness?

Mr. Winston C. Connolly, Jr.: I guess I will just ask the Auditor General . . . your reports have now been addressed, or the concerns in your reports. Do you feel that they are adequately addressed, and that the CIDB is now on schedule?

Mr. Alastair Swarbrick: In terms of the issues that were addressed in this report here, we have seen that they have been actioned for the year ending June 30, 2012, and there has been no reoccurrence of the issues; and that the control environment has been strengthened regarding the specific items that we have identify here.

Mr. Winston C. Connolly, Jr.: Thank you.

Mr. Alastair Swarbrick: Just following on from that, that is ultimately what we are looking for from our reports at the end of the day, that these things are taken into account and moved forward in their internal control environment, or that improvement engenders in reality.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, I would like to commend Ms. Ebanks and we hope that all other entities take the same approach.

The Chairman: Thank you, too, then, Ms. Ebanks. I would like to echo my congratulations to you for the forthright way in which you seem to have responded to the issues raised. I echo the comments of other Members here that it is a type of response that I think we would expect and encourage and would like to see.

Thank you for your testimony. Sorry you had to wait so long. But your time here has been fairly short as well. So thank you once again. We will excuse you at this point in time.

Ms. Tracy Ebanks: Thank you too.

[Witness departs]

The Chairman: At this time the Committee would like to call the next witness. Mr. Fabian Whorms, President and Chief Executive Officer of Cayman Airways.

I believe we also have the CFO of Cayman Airways and the Chairman of the Board of Directors joining him.

Hon. W. McKeeva Bush, Leader of the Opposition: And, Mr. Chairman, I would like to commend, I don't know if it is the initiative of Cayman Airways, or yours . . . but when we are here in Public Accounts Committee and reports the Auditor General has . . . we are here to examine a report. The Auditor General made a

report, he carried it to the papers and to the news media, and splashed everybody's name across the papers and then we come to examine.

But when we call to examine, we call to examine, as we just did, Ms. Ebanks. We do not have the Board people, at least the chairman of the Board should be with them because they all work together, or they are supposed to work together. And particularly where accusations are made, the management might not know, but the Board chairman might have an answer that can enlighten the Committee and at least clear the air on what the Auditor General has made assumptions on, or been told by somebody.

So I would like to commend the fact that we have Cayman Airways with a complement, with the managing director and the Board.

The Chairman: Thank you, sir.
Mr. Auditor General?

Mr. Alastair Swarbrick: Just to add a point of clarification for you, that all the findings in this report have been reported to the management and the Board of the individual entities, in most cases some significant time ago, before it was compiled and consolidated in this report.

Hon. W. McKeeva Bush, Leader of the Opposition: We're not talking about timeliness or anything. I am talking about the fact that a report, most times in the . . . Mr. Chairman, because this is important, because how else do we clear the air? How else do we find out? You mean to say that we can only hear, take what the Auditor General has written as the Bible? I don't.

All I am saying is that it's good that we have the Board and the management together so that they can . . . we can talk to them about the issues that are before us because the Board works with the management and the management works with the Board. That is a fact.

The Chairman: Thank you, sir.

I would like to welcome the Chairman of Cayman Airways, the CEO, Mr. Whorms, and also the CFO.

Mr. Whorms, we ask you speak into the microphone. Please state your name and your position. And please also state the names of those members who are with you and their positions for the record.

Mr. Fabian Whorms, President and Chief Executive Officer of Cayman Airways: Thank you.

Good morning my name is Fabian Whorms. I am the President and Chief Executive Officer at Cayman Airways. I am accompanied by our Chairman, Mr. Philip Rankin, our Executive Vice President of Commercial Affairs and CFO, Mr. Paul Tibbetts, and our internal auditor, Mr. Darren Ali.

The Chairman: Thank you, sir.

Members of the Committee, questions for these witnesses?

Mr. Joseph X. Hew: Good morning gentlemen.

Mr. Whorms, I see here that quite a number of the concerns raised in the audit have been met. In fact, in 2012 there is good evidence that you are heading on the right track. Are you willing to state, or would you like an opportunity to, perhaps, elaborate a bit on some of the challenges, if there are challenges, and what those are in becoming fully compliant?

Mr. Fabian Whorms: I could give a bit of a background as to the full circumstances relating to the financial reporting year ending June 2011.

I would like to start by speaking about what existed in 2010. Cayman Airways was faced at that time with a backlog of audits, only having the audit for 2005 completed at that time. This meant there were some four years of audits outstanding which, if done in sequence, would have severely delayed the reporting for fiscal year 2011. To address this, the airline, in conjunction with the external audit firm, the Public Accounts Committee and the Auditor General's Office, all agreed to a pragmatic solution which would see the 2010 financials audited in a timely manner and tackle the backlog thereafter.

In order for the 2010 audit to be effectively completed, considering that the four prior years had not been audited, the 2010 audit was extremely comprehensive with the aim of capturing deficiencies from all four prior years. As a result, in 2011 the external audit firm opted not to conduct detailed control testing in many areas. And, as such, much of what was in the internal controls report for 2011 actually relates to issues from prior periods. This matter has been raised with the external audit firms several months back and they now, in completing their audit of the last fiscal year 2011, indicate that this will be addressed going forward.

In essence, much of the 2011 internal control report content is a repeat of the 2010 report and included many issues from prior years which have actually have been resolved or are in the process of being mitigated. Having said that, we have been on a path of not only getting caught up with our audits and our financial reporting, but we are also on a good path in ensuring that we have good controls in place to address any deficiencies and are very strong with mitigating controls.

We have been active in addressing the issues surrounding our financial and IT systems, in particular. We have made many changes in the management structure of our financial department in recent times to address points raised regarding monitoring and review by senior management. We have also added a full

time internal auditor, who happens to be with us today (so that's an indication of one of the steps we took).

For fiscal 2012 we have developed a new IT policy and procedures framework to address many of the issues raised in the Auditor General's report. We are also looking forward to further enhancements to our IT controls due to the fact that the internal audit unit of government is currently conducting a detailed audit of our IT systems and controls and we expect that to further assist us to bolster our IT controls.

I hope that's helpful in terms of answering the question.

Mr. Joseph X. Hew: Thank you, Mr. Whorms. I should say congratulations to you and your team as well. I see that you fulfilled quite a number of the suggestions and issues raised by the audit team.

The Chairman: Mr. Whorms, I guess my question for you is where are you now with 2012/13 audits and having those completed?

Mr. Fabian Whorms: We are essentially on track. But I will allow our CFO to speak in more detail to that.

Mr. Paul Tibbetts, Executive Vice President and Chief Financial Officer, Cayman Airways: Mr. Chairman, the financials for 2012 have been completed and audited. So those are finished at this point. The Auditor General has completed his work on that as well. We use an outside audit firm so the Auditor General also then has to review it as well. So we have two steps.

The 2013 financials have been completed and are in the process right now of being audited. The external audit firm tells us that they expect to have the audit completed by December of this year. If we are able to accomplish that that would be the fastest we have ever conducted an audit. But we are working on that track and believe we can accomplish that.

The Chairman: Thank you.

Do Members have other questions for these witnesses?

[No audible reply]

The Chairman: Gentlemen, thank you very much for your time and your testimony this morning. You are excused.

Mr. Fabian Whorms: Thank you.

[Witnesses depart]

¹**The Chairman:** The Committee would like to summon its next witness, Mr. Paul Hurlston, Managing Director, Port Authority.

Good morning.

Mr. James Parsons, Chief Financial Officer, Port Authority: I apologise for Mr. Hurlston this morning. He had to go to another meeting, he and the other deputy. The meeting concerned the Cruise Port. I think what he is saying is that a presentation is being done with other Ministers of Cabinet and his committee. So I apologise on his behalf.

The Chairman: I do have a bit of a problem. He did confirm that he would be here at this Committee meeting.

Hon. W. McKeeva Bush, Leader of the Opposition: Mr. Chairman, I am happy to see the officers here, but what these directors need to understand—and one and all—is that when Public Accounts Committee calls them and they particularly say they are coming, they just can't go off and say, *We have something else going on, so take it or leave it, we're not going to be there.*

The Chairman: I do agree with you, Member.

Hon. W. McKeeva Bush, Leader of the Opposition: Yes. I don't know, I mean I want to ask him . . . I want to see his contract. I don't know if the finance office can give me his contract or not.

Mr. James Parsons: Mr. Chairman, you want me to answer that question?

[Laughter]

Hon. W. McKeeva Bush, Leader of the Opposition: Yes, if you can!

The Chairman: I need you to please state your name, your position, and in what capacity you are here as, because we have agreed to—

Mr. James Parsons, Chief Financial Officer, Port Authority: James Parsons, Chief Financial Officer for the Port Authority of the Cayman Islands.

The Chairman: I am mindful to send a message to Mr. Hurlston to summon him to this . . . to tell him to come before this Committee, because he has confirmed his attendance.

Hon. W. McKeeva Bush, Leader of the Opposition: My suggestion is to hold up. I mean, unless there is

¹ Mr. Hurlston's testimony begins at [page 67](#)

something here that staff can't answer. This time we will forgive him for absconding from his responsibility.

The Chairman: Are Members comfortable with proceeding, or . . . I am looking for guidance from you.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, I think we can proceed with the people here. But I would still request that he come as soon as he is available and he can make his testimony then.

The Chairman: Can we ask for a call to be made to Mr. Hurlston?

Mr. James Parsons: Mr. Chairman, the meeting that he is attending is starting right now.

The Chairman: Do you have any idea how long this is going to last?

Mr. James Parsons: I am not certain. No.

The Chairman: All right, I think what I am going to do . . . this is not the ideal situation. Let's go ahead and take what evidence we can get from these gentlemen. But I think we do want to go ahead and make efforts to reach Mr. Hurlston and ensure that he attends here today.

All right, I am going to open this up to Members to ask questions of Mr. Parsons.

Mr. Parsons, would you state the name and the position of the gentleman next to you for the record?

Mr. James Parsons: For the record, Donovan Hutchinson, Accountant for the Port Authority of the Cayman Islands.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, what steps have been taken since the Auditor General's report to address the concerns that he highlighted in the report?

The Chairman: I recognise you to respond to Mr. Connolly's question.

Mr. James Parsons: Point number 69, and I will read this because it is something that was prepared by Mr. Hurlston.

As far as the register of interests is concerned, the register of interests was put into place for the Port Director and his deputy directors during the fiscal year 2012. The Board of Governors at the time were informed of the significance of the register of interests, but put it on the back burner until the third quarter of 2013, when the majority of them signed off on it. Currently the current Board has been advised of the significance of the register of interests and some

of them have complied thus far, and I am following up with the others.

The Chairman: If I hear correctly, then, you mentioned that while you may have introduced this system of disclosure through a register of interests you still do not have full compliance by your Board members to enable you to identify record and disclose related party transactions.

Mr. James Parsons: Because not all of them have complied with it, but we do have in place a system to identify related party transactions. All we need is for the directors to comply, the Board of Governors to comply.

The Chairman: I guess my question is that it is not a particularly onerous exercise to get these reports completed. Do you understand why there are delays in getting these reports and being able to identify related party transactions?

Mr. James Parsons: Yes. Some Board members are not doing what they are supposed to do, that is to comply with it. As an officer, as part of management, I can't go out and hold their hands. I give them the . . . I print off the document, explain it to them, and then it is left for them to sign and deliver. I must say that out of the 10 members, 3 of them have complied.

I explained the significance of the register of interests.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, that's 30 per cent of them. Has a deadline been set for them? How are they going to be held accountable? Are they going to be not admitted to Board meetings, or some sort of sanction, et cetera, until they comply? What is the plan of action?

Mr. James Parsons: I am unable to answer that, because I am not a part of the Board. That would have to be done through the chairman or the deputy chairman. When I leave here now I can send a strong message to the chairman that the members have to comply by Friday, if that's acceptable to the Committee. I can surely do that.

Mr. Alastair Swarbrick: Mr. Chairman, just to say that I have met with the new Chairman of the Board for the Port Authority and he has indicated that he is going to be looking to take forward such issues as this with the Board and to bring into play the required policy for compliance with various issues, including related [inaudible] register of interests.

The Chairman: Other questions of these witnesses?

Mr. Winston C. Connolly, Jr.: In the report there was talk about the non-compliance with the Port Regula-

tions and the inability to charge tendering fees of some \$548,000-odd. Can you expand on that and tell us what has been done to address that specific point in paragraph 70?

Mr. James Parsons: Let me just give you the history behind that.

The Port Authority in 2003 signed an agreement with the Florida Caribbean Cruise Association [FCCA], and in that agreement more fees could have been increased, more additional fees implemented. The Board at the time felt that the tendering fees, which would not have affected the cruise lines directly through the Port, outside of, you know, where we go ahead and implement tendering fees to the private tendering company. What happened was the private tendering company went to the cruise ships and said, *Listen, we're going to have to increase our fees to you because the Port has implemented this new fee.*

The FCCA came back to, I believe it was the Government at the time, and said, *This can't happen; look at section 60* (I think it is, the section that talks about fees). *There cannot be any new fees.* And the Board decided at that time that we would have to go back to the old fees.

As far as the . . . I advised the Board at that time . . . well, management advised the Board at that time, *Listen, this has to be something that has to be amended in the Regulations.* And nothing was done. Only recently, this recent Board, we have again addressed that with the Board and let them know that there are a number of things in the Port Law and Regulations that need to be addressed immediately, and this was one of them.

But nothing has happened since the 2011/12, and 2013 audit.

Hon. W. McKeever Bush, Leader of the Opposition: Just so I get something clear, the Port Authority of the Cayman Islands has an agreement with the Florida Caribbean Cruise Association. That agreement was for them to build the pier that we have now and upland works that we have, and to pay for that was offset by fees. Am I right?

Mr. James Parsons: You are correct, \$1.00 per passenger.

Hon. W. McKeever Bush, Leader of the Opposition: And where we would fall below meeting the payment, they would increase the people.

Mr. James Parsons: Increase—

Hon. W. McKeever Bush, Leader of the Opposition: The passengers.

Mr. James Parsons: —either the passengers, or increase their contribution.

Hon. W. McKeever Bush, Leader of the Opposition: Right. And that is in the agreement.

Mr. James Parsons: Yes.

Hon. W. McKeever Bush, Leader of the Opposition: And also in the agreement is the fact that we couldn't charge them. There was no increase in fees to them. Am I right?

Mr. James Parsons: Right.

Hon. W. McKeever Bush, Leader of the Opposition: So what is it in regard . . . there is nothing with tenders. Tenders is a company that works out of the Port.

Mr. James Parsons: I agree.

Hon. W. McKeever Bush, Leader of the Opposition: Right. So what is the problem with charging them?

Mr. James Parsons: The problem is we charge them and they have to, in turn, charge the Florida Caribbean Cruise Association members.

Hon. W. McKeever Bush, Leader of the Opposition: Mr. Chairman, I understand what Mr. Parsons has related. Florida Caribbean Cruise Association can't be charged by us; but they can't tell us that we can't charge the tender. And if the tender can't pay the tender has to . . . you know, it's a business operation. That is not our fault, from where I sit.

If we are losing, as it says here, that is not the fault of Florida Caribbean Cruise Association. We should be charging the tender. That's what the Auditor General is saying. That's what you all are agreeing on. Mind you, I am not necessarily agreeing, because we made an agreement with Florida Caribbean Cruise Association to get what we got there, or we wouldn't have gotten it. We would not have had it. So I am not necessarily agreeing that we are at fault somehow, because if we can't . . . if we have an agreement, then the Regulations should be amended to state that. And I don't know where the changes were or were not. Actually, this is the first that I am hearing about it.

But I would like to say to this Committee, being a former Minister of Tourism, and a person that used to sit on the Board and was on the Board when we conducted the agreement to get and build the present Port facilities, this is what happens. This is the first time I am hearing about this. Now, I know there are problems with the Port in cargo, but I never heard about this.

This is one of the problems when you are not on a board. You know you have chairman, you have people, but if you don't know, you don't know. But notwithstanding that, we do have an agreement that we have to abide by, Mr. Chairman. But I don't see

where . . . if the Port Authority has to charge anybody else, not Florida Caribbean Cruise Association, because that's who we have the agreement with.

Now, I understand what Mr. Parsons is saying. If we charge the tenders then they are going to try to increase because nobody wants to see their profits go down. That's what this Island is all about. Everybody has to get a shilling out of every five cents. That's how business operates in this country, so I quite understand that they would want to recoup whatever they are being charged. But that is not our problem. If we want to put on a fee, the Port Authority puts on a fee.

Now, I don't recall anything made to Government to say that we should increase the Port fees to that extent. I know there were other discussions on the cargo side, but I don't know that. Maybe they had. Maybe the decision was taken . . . at one point, yes, I think I can say that a decision was taken that we would, not at that point at time, consider increasing a fee because of the situation in the economy. But if we need to do it, and if it is going to make the Port Authority fall apart, well then we probably need to revisit it, as I am saying.

The Chairman: My thinking is, too, that the second bullet point of this part of the report probably may have some impact as well. But in the report, Mr. Parsons, the Auditor General raised some serious concerns about the ability of the Port to continue as a going concern. I find that quite highly unusual for this type of an entity. Can you explain? I know the Port still continues to operate today, whether it is doing so as a going concern is another matter. But can you tell this Committee what specific steps have been taken by the Port to try and address the issue with regard to the viability and the going concern of the Port Authority?

Mr. James Parsons: Over the years the cargo has dropped. The cruise has also dropped. As a matter of fact, over the last eight years cargo has dropped by 50 per cent.

Hon. W. McKeeva Bush, Leader of the Opposition: By how much, sorry?

Mr. James Parsons: Fifty per cent, tonnage wise.

Hon. W. McKeeva Bush, Leader of the Opposition: Over the last eight years?

Mr. James Parsons: Over the last eight years.

And cruise, 23 per cent.

The operational costs have remained basically the same. We had one small increase in cargo fees in 2010 and the same tender fee at the same time. I want to go back to the tender fee just to highlight something.

This was brought into effect on 1 April 2010. At the Board of Directors' meeting on 13 May 2010, the Board of Directors decided, after hearing the complaint from the FCCA, right there in the meeting this couldn't happen. So it didn't even get off the ground before it was scrapped.

As far as what the Port is doing, we have—

Hon. W. McKeeva Bush, Leader of the Opposition: Just so that I am . . . the first I am hearing about it to that extent, Mr. Chairman.

So it was presented to the Board, you are saying, and it didn't go any further. That's what you are saying? For the fees?

Mr. James Parsons: No, the fees were passed into Regulations—

Hon. W. McKeeva Bush, Leader of the Opposition: Right.

Mr. James Parsons: —the same time that the cargo fees were presented to Cabinet. And they came into effect, I think it was the first of April 2010.

Hon. W. McKeeva Bush, Leader of the Opposition: Right.

Mr. James Parsons: But the FCCA said no.

I wrote the letter to Caribbean Marine Services, who does the tendering, and they got back to . . . they went to the FCCA and said, *We're going to have to pass this on to you*, and they said, *No*.

I am assuming, because I was not a part of that, they got in contact with the Ministry of Tourism at the time and relayed the message to the Chairman of the Board. And the Chairman brought it to the Board and it is [recorded] in the Minutes that we would have to go back to the original old fees of tendering.

As far as what the Port is doing to . . . because of the going concern, there is not a lot the Port can do as far as cutting. We have cut salaries; we have cut salaries about 7 per cent in 2010. We have a lot of operational costs as far as the equipment. Our equipment is old and it is right on the ocean and it has to be maintained properly. We just had to rebuild two . . . well, do a major overhaul on one of the cranes that cost a lot of money. And we do everything out of cash. We had to do a second refurbishing, which wasn't as taxing on the cash.

But to your question about what we are doing, I mean, there is not a whole lot, other than cutting salaries and some other small operating costs, because the Port is such a labour intensive operation, that if you start cutting a lot of personnel it will be reflected on the service that we give and the safety of the operations.

I must say that the last Board really never gave me, as the Chief Financial Officer, much time to

sit down and explain to them what the consequences would be. It is [recorded] in the Minutes since 2008 that I have been telling the Board this cannot continue, we have to find a way, either increase the fees, or let's downsize.

One of the biggest . . . and, Mr. Chairman, KPMG did a study for us in 2011 (I think it was) that showed the cash flow for the next three years. And let me tell you, if Board members at the time had taken note of this study they would have seen that we have a going concern problem. In fact there were recommendations made. Thankfully, we have paid off one of our loans . . . well, two of our loans now, which frees up over half a million dollars a year, which is good. One just got paid off in August, and the other got paid off, I think it was in January. It has freed up a half a million dollars a year, in cash, which is good.

But, the previous Board, and I always refer to the "previous" Board because nothing comes to me as a CFO, everything was just done through the Board. Consultancy fees is over \$1 million, and legal fees in the last seven years. The majority of that was done through the last Board. I kept saying, *Listen, you know, you can't sustain this*. But nobody took my advice on that.

What we are planning now, and we have approached the Board, and the Board has been very generous in asking my opinion. We are looking at how best we can raise fees that should have been raised 10 years ago over a period of time. Instead of doing a big thing now, and then 10 years later we do it, we will stagger it over the three years.

The Chairman: Those types of measures take some time to yield the results that are needed. What is happening with the Port right now? I mean, effectively . . . are you seeking government subsidies as part of . . . to continue operations? Are you borrowing funds to continue to fund operations, I mean what's happening? Because effectively you are telling me that you haven't been able to raise revenues, there is little scope for cutting on the cost side because there is a huge fixed cost that you need to support and run the Port. Clearly you are going to need resources from some sources to continue.

Mr. James Parsons: Well, indirect subsidy from government and that is the insurance. Over the last (I think) four years we have had to ask that we pay this over a certain period of time. The cash isn't there because of all of the operating costs, the capital expenditure that I just mentioned, the consultancy and legal fees. So we are unable to pay government any substantial amount. Right now I think the indirect subsidy, borrowings from government was up around \$3.5 million. In the next six months I don't see us putting anything towards that because we have had a rough, rough summer.

Hon. W. McKeever Bush, Leader of the Opposition: When you say "indirect" subsidy, you are referring to that you should have been paying government something.

Mr. James Parsons: I should have been paying government the insurance up front when government sends me a bill. And we have been doing that up until 2009. But, again, because of the slump in the economy, we were unable to make any payments.

The Chairman: Mr. Connolly?

Mr. Winston C. Connolly, Jr.: Thank you, Mr. Chairman.

It has been five years, you said, that you have been making recommendations to the Boards and none of them have taken any of those recommendations forward. In your opinion, why was that allowed to continue (i.e., an ineffective Board is not taking advice from the people crunching the numbers?).

Mr. James Parsons: Mr. Chairman, I cannot answer that because I only get called into meetings. I don't sit on the Board. I can't answer that. I mean, I—

Hon. W. McKeever Bush, Leader of the Opposition: But, you used to go to like budget meetings of the Board.

Mr. James Parsons: I used to present the budgets and occasionally . . . but, let me be abundantly clear. In the last two years I was only invited to the Board once and that was to present the KPMG report, and I was given 15 minutes to make that presentation and I was cut short 10 minutes.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, I don't think we can continue with the line of questioning that we have to without the managing director here, because there are some serious concerns about governance.

You are telling me that you, as chief financial officer, have been to one Board meeting in two years for 15 minutes?

Mr. James Parsons: Less.

Mr. Winston C. Connolly, Jr.: And less.

And we also have some of the paragraphs 149 to 155 to go over.

Did you have something prepared from Mr. Hurlston that we can at least listen to beforehand? And then . . . I think we need him here to answer some of these questions, Mr. Chairman.

The Chairman: I am hesitant to say so, Mr. Connolly, simply because whatever the statement might be, we

are going to have to wait some time. I prefer to hear it from Mr. . . . go ahead.

[Inaudible interjection]

The Chairman: No, no, let's go . . . no, no, make your statement. We will take the testimony later.

Mr. James Parsons: But that's all I can say. The only thing I want to add to the going concern . . . over the many years that the Port Authority in Cayman Brac has been operating, it has been operating at a loss. Subsidies that . . . we have to subsidise that operation to the tune of probably half a million dollars a year. And it will continue unless something happens, another mechanism is put in place.

Hon. W. McKeeva Bush, Leader of the Opposition: That is not new, though. That has been for many years we have subsidised Cayman Brac, giving them funds very year. And it is reaching now about \$500,000 per year.

Mr. James Parsons: Yes. That's what I'm saying.
So that adds to the cash outflow for the Port.

Hon. W. McKeeva Bush, Leader of the Opposition: One question, Mr. Chairman, if he can say off hand, did cargo in Cayman ever pay for itself, the cargo operations? Or was it subsidised with the revenue from cruise?

Mr. James Parsons: Yes, the cargo was subsidised by itself.

Hon. W. McKeeva Bush, Leader of the Opposition: It ran by itself?

Mr. James Parsons: Yes. But over the last five years the cruise contribution has been very—

Hon. W. McKeeva Bush, Leader of the Opposition: To keep cargo up?

Mr. James Parsons: Yes.

Hon. W. McKeeva Bush, Leader of the Opposition: And basically that's because we have been in this slump of an economy for five or six years. You might be saying five, but we go back even six. It is because of the economic condition of the Island why cargo has not . . . well cargo, you said we have lost at least 50 per cent of it.

Mr. James Parsons: Yes. And we haven't kept up with the cost of doing business. I mean, we have a huge, a humongous, cost for security that came into effect in 2004, and the Port didn't start charging fees for that. So, that's another area that we are looking at

to charge the cruise . . . not the cruise, the cargo operations. The cargo operation is like between 75 per cent and 78 per cent of the revenue of the Port. The cruise operations and tenancy at the Port make up the other 22 per cent and 25 per cent.

The Chairman: Okay, Mr. Parsons, I think I am going to make my final decision. I think I prefer to wait until Mr. Hurlston can be here to give his testimony.

Mr. James Parsons: Okay.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, I just have one question on the financials, if you can indulge me.

The Chairman: Go ahead, please do.

Mr. Winston C. Connolly, Jr.: In terms of timely financial statements and your responding to the Auditor General's report, can you tell us now, going forward, how that will work and how you have addressed the concerns he has raised in terms of meeting the statutory responsibility to deliver at the table the financials in a timely fashion?

Mr. James Parsons: You mean getting the financials to the audit stage?

Mr. Winston C. Connolly, Jr.: Yes.

Mr. James Parsons: I must tell the Committee that we have over the years been pretty much on time. The financials are due on the 31st of August, and I believe we got the financials on the second of August. Going forward, I don't expect to be any later than the end of July.

Of course, they are draft in form and if there are any audit differences then those will be brought to our attention and then we will have them run through the general ledger.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, in terms of the obligation to prepare and table in the Legislative Assembly the annual reports, the Auditor General had raised in his report that this wasn't being done. So, can you tell me now that this is now being done and will be done in a timely manner?

Mr. James Parsons: The answer to that is yes, from the perspective of the Port Authority. It is left to the Ministry because we don't present them. We give them to the Ministry and the Ministry then presents them. And we had given the stuff to the Ministry, I don't know what happened. But they came back again this year asking for the same information, well recently, for 2011. I think they presented 2012 in the earlier part of this year, and 2011 I think has come before the Legislative Assembly now.

As far as the Port Authority is concerned, as soon as we get the audited financial statements we can put the information together and we give all the copies, everything that the Ministry needs, the Minister needs, to present to the Legislative Assembly.

The Chairman: Auditor General?

Mr. Alastair Swarbrick: I just want to confirm the position from our perspective is that the 30 June 2012 financial statements were signed off in December 2012, and they were tabled in the Legislative Assembly on 14 March 2013, at which time the 2011 financial statements had still not been tabled in the Legislative Assembly.

Mr. James Parsons: That confirms what I just said, you know; they were asking me for information that I had already given them.

The Chairman: Any further questions of these witnesses?

[No audible reply]

The Chairman: Okay, if there are no other questions, then, Mr. Parsons, I excuse you both. Thank you for your testimony.

Mr. James Parsons: You're welcome.

[Witnesses depart]

[Inaudible interjection]

The Chairman: The Clerk is going to be contacting him now. If you have the direct line, let him know we are trying to reach him to bring him here.

Our final witness before we break for lunch is Mr. Kerith McCoy, Acting CEO of Cayman Islands Airports Authority (CIAA). There are two additional attendees, Melantha Wright, Financial Controller, and Tusa Kudzanayi, a temporary certified public accountant working in their finance department.

[Pause]

The Chairman: Good morning Mr. McCoy, welcome to Public Accounts Committee. It's good to see you again today.

Would you please state your name, your position and that of each of the additional attendees to your right?

Mr. Kerith McCoy, Acting CEO of Cayman Islands Airports Authority: Good morning everyone.

I am Kerith McCoy, Acting CEO of Cayman Islands Airports Authority. With me is Ms. Melantha Wright, our Financial Controller, and we are joined

today by a temporary CPA in our finance department, Mr. Tusa Kudzanayi,

The Chairman: Thank you.

Do you have a statement to present before we move on, Mr. McCoy? Or should we proceed?

Mr. Kerith McCoy: You can proceed.

The Chairman: Okay.

Members of the Committee, we open the questioning of these witnesses.

[Pause]

The Chairman: Mr. McCoy, on page 12 of the report, at paragraph 41, it talks about the inability to identify, record, and disclose related party transactions. Can you tell the PAC what steps you have taken to address this matter that has been raised by the Auditor General?

Mr. Kerith McCoy: Yes, sir.

Subsequent to the Auditor General's report, the CIAA has addressed for financial years 2011/12, 2012/13 this notice of interest disclosure by all senior management members and directors, with the exception of three directors of the past Board and one director of the current Board. We continue to exercise efforts to have those persons submit their notice of interests.

The Chairman: What efforts have you made, Mr. McCoy, to try and get this one person within your Board to respond? I mean, just from my experience as an auditor, it doesn't strike me as an issue that should be particularly onerous to comply with.

Mr. Kerith McCoy: I do agree, sir. I will just ask Ms. Wright to clarify the measures that she has undertaken so far, if I may, please.

Ms. Melantha Wright, our Financial Controller, Cayman Islands Airport Authority: We just made follow up . . . we have a Board secretary in place. We have made follow up with her via email, copied the CEO and the Chairman of the Board. Outside that, there is no real—

The Chairman: Have you set any deadlines for the collection of this information?

Ms. Melantha Wright: September 30th.

The Chairman: September 30th? Okay.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, the deadline of September 30th, what happens if that passes and you don't have the information? Did that

correspondence set out any kind of action or penalties for accountability if that member just refuses?

Mr. Kerith McCoy: Mr. Chairman, I am not aware that the management of the CIAA has the authority to exercise penalties against Board members, but I would imagine and expect that the seriousness and the obligation to comply is appreciated and we expect full compliance.

The Chairman: Mr. McCoy, I just wanted to focus in on an item, particularly on paragraph 123 where they talked about some shortcomings with regard to leases and potential there for revenue leakage. What steps have you taken to address those issues?

Mr. Kerith McCoy: Mr. Chairman, a number of those leases, in fact the majority of the leases, have been executed. There remain some relating to government departments, tenancy at the airport. In my response to the Auditor General on that, that matter was in discussion between ourselves and the Lands and Survey Department which represents those government departments.

Subsequently, the Cayman Islands Airports Authority and the Cayman Islands Government have entered into a recent arrangement that, while it will not impede the execution of the leases, it did impact some of the negotiations that I referred to earlier on. So now that these arrangements have been concluded, we expect the Lands and Survey Department to proceed post haste to get those government leases effected.

In a couple of cases with regard to some of our tenant airlines, we had some airlines ask for time to have legal advice on some of the lease content. And we have mutually agreed to have the matter resolved again by September 30th that they will have had ample time to get their legal questions answered and move forward. But, by and large, a majority of the leases have been already concluded.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, in the Auditor General's report there were some observations. I know this is historical now, to a certain degree, about the Board overstepping its functions of governance and it set out some of the occurrences, or gave examples. How has this been corrected in terms of going forward now, with the new Board being put in place in relation, specifically, to roles and expectations?

Mr. Kerith McCoy: Mr. Chairman, first of all, the Board invited presentations by the Auditor General's Office to define the issue of governance and the concerns highlighted as a matter of familiarity. That was quite a beneficial process. From that, the Board has engaged the drafting of a governance policy. As a matter of fact, it is on the agenda for next week's meeting for review.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, will the Board be expected to sign anything acknowledging these obligations and any sort of sanctions that may occur, i.e., them losing their position, or anything to that regard?

Mr. Kerith McCoy: Again, sir, I would not be authorised to speak on the consequences. However, it is fully expected that once this governance document is accepted and formalised to be accommodated, and I think that process will involve having the further input of the Auditor General's Office in order to ensure the suitability of application, then, again, I would venture to say the Board would be committed to complying with the requirements.

All indications are that the Board is quite committed to proceeding in that direction.

The Chairman: Auditor General?

Mr. Alastair Swarbrick: Mr. Chairman, just to add some context for the Member's information. Some of the issues around sanctions and the enforcement of that are broader questions for the relationship between statutory authorities and government companies and core central government. I know this is an issue that is being considered by, I think, the Deputy Governor's Office and the Government at this time in terms of public authority boards and so forth.

In terms of the engagement with the Airports Authority, we have been engaged with them to talk about the governance issues with the new Board, and also the Port Authority and the National Roads Authority at this time. We are looking at providing them with some more guidance, advice around this going forward in the next few months to help them drive through the issues of what we see as appropriate governance and the process and policies that they need to put in place to ensure that is effective in those.

The Chairman: Is it fair to say, Auditor General, that you are satisfied with the response that you are getting from the Board of the Aviation Authority?

Mr. Alastair Swarbrick: We have had very good engagement with the new Board at this stage. So we are looking forward to trying to work with them to take things forward.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, again, just to ask for general edification, as a matter of course, does the Auditor General's Office do this for all government boards?

Mr. Alastair Swarbrick: It is also a question of resourcing. We try to engage with boards to talk about what governance is appropriate. There is a good op-

portunity at this time to talk about these issues and we have been talking to Government about what they can do to try and provide training to members regarding their roles on boards, what is the role of the board, what is the appropriate responsibility between boards and management, and I believe the Portfolio of the Civil Service (I may be wrong with that) are looking at how they can provide effective training and guidance to new board members who are engaged on the statutory authorities and government companies going forward.

But we do see our role as providing advice. Again, from ourselves, how much we can give is a function of the resources we have at our disposal to do that, but we will try wherever we can to help and engage where that is possible.

Mr. Winston C. Connolly, Jr.: Thank you.

I just have one other question, I guess in terms of the effective management of conflicts. I address this to the Auditor General again: Did you specifically, when you went in to speak to the Board, advise on how to identify conflicts, how to, I guess, declare conflicts and just what should happen when a conflict is declared?

Mr. Alastair Swarbrick: We have had initial discussions around those issues. Over the course of the last few years we have provided advice around this issue because it is sort of an issue from our perspective, providing copies, for example, of the policies that my office has employed around conflicts of interest, independence, and various other factors and ethics, so people can see what we do, which probably goes beyond what a standard conflict of interest register would do because of the role that we have as an organisation. But we have provided that guidance to many people.

It is clearly one of the major parts of any advice that we provide on governance around how people manage those conflicts and effectively manage them so they don't impede the business of the board.

Mr. Winston C. Connolly, Jr.: Thank you.

The Chairman: Mr. McCoy, I do have one final question regarding paragraph 122 with regard to the two instances of non-compliance with the Financial Regulations. I recognise this is historical, but has the Authority made any changes to the way in which it deals with these matters? And if they have, can you share with us what they are?

Mr. Kerith McCoy: Mr. Chairman, absolutely.

In my role as acting CEO I have initiated a new culture of appreciation for the management of public finances. We have implemented measures to adhere to the PMFL requirements in the guidance relating to procurement. We have undertaken more vig-

orously to ensure that comparative purchasing or procurement for services is implemented across the board regardless of the value amount so as to ensure value for money. And this has been over the last nine months that I have been acting.

I must clarify that, unfortunately, what is experienced is a cultural, or has to be enforced as a culture shift. And while these measures have been implemented as a matter of policy now, and procedure, we are hopeful that the persons involved are on board.

I do ensure to remind persons of consequences for non-compliance with established policies. But what I am speaking to is the hope that a mindset will be changed from what people are accustomed, or how people are accustomed to performing to what is now the expectation.

The Chairman: Mr. Connolly?

Mr. Winston C. Connolly, Jr.: In the incidents that were set out in the report, how, going forward, will you ensure—not just remind and try to persuade, how will you ensure—that things are properly tendered and at least advertised so that it is a fair system?

Mr. Kerith McCoy: Mr. Connolly, we have implemented a procedure where all procurement based on the values that are identified in the guidance, and those are \$20,000, \$50,000 and \$250,000 thresholds, are implemented either by departmental tender process or public tender process or a CTC-evaluated process as per the value. Nonetheless, we have documented . . . sorry, we have prepared documentation and a required process that the financial controller and I will review all purchases to ensure that we have not just accepted, say, the first quote.

Our signing policy allows senior managers, heads of our individual internal departments, to sign for up to \$3,000 worth of expenditure. While that remains the case, what we discovered was that there had been very little oversight into that. People who were authorised to sign up to \$3,000 could buy anything up to that value without having a comparative process. We have now implemented that even though that authority still exists, we must be provided with evidence that any procurement has been established on a comparative basis.

The Chairman: Are you satisfied, Mr. McCoy, that the new processes and policies are effective in achieving what they were intended to do?

Mr. Kerith McCoy: Mr. Chairman, we are satisfied that the processes and the new documentation will indeed achieve what we have set out to do. As I said earlier on, we are vigorously encouraging the change in the mindset because, while paper and procedures is one thing, compliance with those is the crux of

achieving what we set to achieve. And that's a human factor.

The Chairman: Go ahead, Mr. Connolly.

Mr. Winston C. Connolly, Jr.: And just one follow up on your question on the leases. How does that actually occur in terms of advertising, ensuring that everyone has fair access to the space at the airport and it remains competitive? What is that system that you have in place and has that changed recently as well?

Mr. Kerith McCoy: Councillor Connolly, that is an excellent question.

We have just engaged the services of a local company to assist us with guiding through establishing a selection criteria for tenancy. We have never had such a programme.

Historically, we have had the same tenants from the time that this airport terminal was commissioned in 1985, and in most cases there were carry-over tenants from the old airport. So, the way that business was done traditionally hasn't served the way that business should be done now. So while we have not had the need, per se, or we haven't engaged any new tenancies, the failure of not having any criteria to determine our tenancy policy or our tenancy process, has been recognised, and I have vigorously engaged a programme of establishing a selection criteria. So we are right in the middle of that as we speak.

Mr. Winston C. Connolly, Jr.: Thank you.

Hon. W. McKeever Bush, Leader of the Opposition: Mr. Chairman, in connection with this good governance audit, can Mr. McCoy tell me how many people were employed recently in the last . . . well, since January? And how were they employed? Who hired them? Who gave permission?

In fact, before he does that, can he tell me who (I don't know who the chairman) the members of the Board are now?

Mr. Kerith McCoy: Mr. Chairman, the members of the current Board are Mr. Kirkland Nixon, as Chairman; Mr. Thom Guyton, Deputy Chairman; Mr. Joel G. Jefferson; Mrs. Vanessa [Godfrey-]Banks; Mr. Bruce Smith; Mr. Stran Bodden; myself as Ex-Officio; Mr. John Meghoo; and Mr. Nathaniel S. Tibbetts.

And to answer your question, Mr. Bush, there have been two hirings since . . . you said in the last six or so months?

Hon. W. McKeever Bush, Leader of the Opposition: From January.

Mr. Kerith McCoy: From January, yes sir. There have been two hirings, the post of Board secretary, and the post of Senior Internal Auditor.

The Board's secretary position, I guess, speaks for itself. Her mandate reports directly to the Board of Directors. She is not considered an administrative officer of the Airports Authority. The post of Senior Internal Auditor functionally requires that post holder to be more administratively involved. At the time of the recruitment of that post holder, it was seen that the post would, again, report directly to the Board. I think the intention is to have objectivity. For the function of the post objectivity is required and so it was structured that that post reports also to the Board.

As everybody will know, we were unsuccessful recently in trying to recruit a chief human resources officer.

Hon. W. McKeever Bush, Leader of the Opposition: You were successful?

Mr. Kerith McCoy: Unsuccessful.

Hon. W. McKeever Bush, Leader of the Opposition: Unsuccessful?

Mr. Kerith McCoy: Yes sir.

Hon. W. McKeever Bush, Leader of the Opposition: You don't have one now?

Mr. Kerith McCoy: No sir.

Hon. W. McKeever Bush, Leader of the Opposition: So in recent times the Board's secretary was employed.

Mr. Kerith McCoy: The two employments were those two that I . . . the Board secretary and Senior Internal Auditor.

Mr. Tusa, here to my right, is a temporary employee. We have an arrangement with a recruitment firm just on a temporary basis for his services.

Hon. W. McKeever Bush, Leader of the Opposition: For human resources?

Mr. Kerith McCoy: No sir, it's in the finance—due to significant workload. But he is not an employee of the Airports Authority.

Hon. W. McKeever Bush, Leader of the Opposition: Who hired the secretary?

Mr. Kerith McCoy: I would say that as the senior executive I was not involved in the hiring of the Board's secretary.

Hon. W. McKeever Bush, Leader of the Opposition: This came from the Ministry.

Mr. Kerith McCoy: I was not involved with it, really. I can't even answer that accurately, sir.

Hon. W. McKeever Bush, Leader of the Opposition: It was not the Board.

Mr. Kerith McCoy: It may have been.

Hon. W. McKeever Bush, Leader of the Opposition: It may . . .

Mr. Kerith McCoy: Again, by not being involved at all, I am a bit unsure. I must admit I was not involved at all.

Hon. W. McKeever Bush, Leader of the Opposition: You were not involved. Mr. McCoy, you are an executive on the Board.

Mr. Kerith McCoy: Yes sir.

Hon. W. McKeever Bush, Leader of the Opposition: Yes. So you would know whether the Board hired or not.

Mr. Kerith McCoy: It is my belief that the Board hired the Board secretary.

Hon. W. McKeever Bush, Leader of the Opposition: The Board has a very wide remit, including the remit of hiring the director, I think, once that is . . . and other staff. Maybe you can elaborate on it.

Mr. Kerith McCoy: Under the law, the Board's remit for hiring is exclusive to the chief executive.

Hon. W. McKeever Bush, Leader of the Opposition: Stays to—

Mr. Kerith McCoy: To the post, sir.

Hon. W. McKeever Bush, Leader of the Opposition: To the post, of course after consultation with . . . and the Ministry can give general directions.

Mr. Kerith McCoy: The law allows the Ministry to be consulted in matters of the administration of the Airports Authority. I do not believe that it extends to the hiring of the chief executive.

Hon. W. McKeever Bush, Leader of the Opposition:
"9. (1) The Minister may, after consultation with the Authority, give such general and lawful directions in written form as to the policy to be followed by the Authority in the performance of its functions, and the Authority shall give effect to such directions.

"(2) Any direction given or decision made by the Minister which affects the members of the

public and which is not of an internal or administrative nature, shall be published in the Gazette; but no such direction shall apply in respect of a matter pending before the Authority on the day on which the directions are published." [Airports Authority Law (2005 Revision)]

The audit complains that the Board members participating on project evaluation committees, that is any Board member, for procurement and the audit says that they are operating in a capacity beyond oversight. It is obvious that this Board is more than, according to this law, oversight.

Mr. Kerith McCoy: Are you asking me, or . . .

Hon. W. McKeever Bush, Leader of the Opposition: Well, I am stating.

And the audit complains that there were applications for businesses to operate at the airports approved. Would Mr. McCoy know which businesses were approved by the Board? Applicant?

Mr. Kerith McCoy: Mr. Chairman, Mr. Bush, in the context of the date reflected in the audit, year ending 30 June 2011, I must acknowledge that my seniority was not to the level that it is now and, therefore, my involvement would have not been . . . I would not have been privy to information at that time. So I am unable to answer you as to which businesses, as per the Auditor General's report, which businesses the Board was involved in selecting.

Hon. W. McKeever Bush, Leader of the Opposition: Oh, you don't know.

Mr. Kerith McCoy: No sir.

Hon. W. McKeever Bush, Leader of the Opposition: If there were any at all.

Mr. Kerith McCoy: That is true. I don't know if there were any at all. I take the Auditor General's report for the value that it demonstrates. I have no reason otherwise, but—

Hon. W. McKeever Bush, Leader of the Opposition: Well, maybe the Auditor General he's here. Maybe he can answer. Which businesses, because I am eager to know that. And it all has to do with the . . . Mr. Chairman, in case you are wondering where I am going—

The Chairman: I am trying to see the relevance of it, Mr. Bush.

Hon. W. McKeever Bush, Leader of the Opposition: Well, well, Mr. Chairman, you have the report in front of you. Look at 119.

Mr. Alastair Swarbrick: I can't provide you with specifics about the businesses, but what I will say is that the facts contained in this report were agreed in a meeting with myself, the Board chairman, at the time, the chief executive officer, at the time, Mr. Jeremy Jackson, and other members at that time.

Hon. W. McKeeva Bush, Leader of the Opposition: Yeah.

That's the same one, Mr. Chairman, that says that I gave them certain directions. The Minister doesn't give, according to this law, any directions outside of directions with the Authority. That's what the Minister gives, general directions of the Minister. The Authority shall not proceed with any plans.

So I am trying to find out whether just that this is being generalities, a process of generalities, where somebody says something. Where is the factual basis when you put it in the report?

And again, Mr. Chairman, we are here, we are talking about people that this country has appointed, who are giving their service free to the country, board members throughout this country. What is going to happen here? We are not going to get anybody to serve on boards, Mr. Chairman, because of these sorts of reports. Everything is making them look as bad as possible—they are in conflict, they are working beyond their capacity as a board, and yet we have such a long thing here about the Civil Aviation Authority, or . . . I call it Civil Aviation, but Airports Authority. And we don't have anybody from the Board. The Chairman is not here to tell us what he did or did not do.

And the present acting director can't tell you because nothing was given to him. This was dependent upon the say so of the former director, who is off for various reasons and not in post.

I don't know if you have anything here, Mr. Chairman, other than the Auditor General's report to say whether any of this is factual?

The Chairman: No. But I have no reason to doubt the accuracy of it—

Hon. W. McKeeva Bush, Leader of the Opposition: Well, that's for you, Mr. Chairman. I am a member of this Committee and I have already proven to you and this Committee that what he says sometimes in these reports are not the facts.

The Chairman: Mr. Bush, the testimony before this Committee from the Auditor General is that this report and the contents were discussed with the appropriate members of the Board and the staff of the Aviation Authority. And I accept that.

Hon. W. McKeeva Bush, Leader of the Opposition: And you accept that, Mr. Chairman. That might be the Chairman accepting it. But the Chairman can't accept

it for me, and he might accept it for his colleagues, Government members across the way, but he can't accept it for me.

And I have already complained even in the billing from the Audit Office. I don't want to see one-liners. I don't want to see just a one line saying that this is what we have to pay out. I want to see proof, because people's names are being besmirched and people's reputations are being besmirched, people who give their time, their effort and their knowledge, people who have stood the test of time in this country and helped to build this country, whether this Committee wants to recognise that or not. In a report to me, I certainly recognise it when people's names are being besmirched and pulled here, there and everywhere.

So, Mr. Chairman, some of the questions that I am asking, you say are not relevant? I am talking about good governance.

The Chairman: I never said they weren't relevant. I said I was struggling to understand the relevance, and where you were going with the line of questioning and your statements.

Hon. W. McKeeva Bush, Leader of the Opposition: Well, if you were struggling all you have to do is look at page 26, at 119.

Mr. Alastair Swarbrick: Mr. Chairman, I have clearly stated how we clear our reports and how we ensure factual accuracy after our financial audits and through our performance audit reports. And I don't believe there is anything worthwhile saying at this state any further on this matter.

Hon. W. McKeeva Bush, Leader of the Opposition: All I am saying, Mr. Chairman, that may be in the past, that this is the way we operated and the Auditor General could just come in and say it because he went and talked . . . I am a member of the Committee. I haven't talked to anybody. So who am I going to . . . where is the evidence? Where is the evidence? I have seen . . . listen, I have seen a lot of things here that I know these assumptions.

Yesterday I was contradicted, and let me explain, because it is all relevant. I was contradicted that there were two people that did the report, and that one of them was in conflict, who was a consultant to the Audit Office, because that person had worked and had failed their duty and a person had died and they were let go and they came back to try to get business. That person was a consultant. They wrote a huge report, a huge report, Mr. Chairman. That is what I was speaking to. So it is relevant.

But we might not have all the exact facts. But there is something to what we are saying because it existed. It existed. All I am saying is that what . . . when we are here talking about what somebody did,

that person ought to be here with the CIAA people to answer questions.

In other words, Mr. Chairman, if we are here besmirching Mr. Frankie Flowers, Mr. Dick Arch, Carlon Powery, or Customs, or prior representatives, then perhaps that chairman ought to be here to give an account of what they did and did not do, and how they carried out their responsibility.

Mr. Winston C. Connolly, Jr.: Mr. Chairman—

Hon. W. McKeeva Bush, Leader of the Opposition: And in this day of modern . . . you want everything open and transparent and it's good governance. So good governance is one sided? I hope not.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, just a suggestion in that we are starting to name names of people that are not in the reports, and I would think that we shouldn't.

Hon. W. McKeeva Bush, Leader of the Opposition: I can name names, when I am not accusing, because the truth is, the names that I am naming, Mr. Chairman, have been accused! And I am here . . . in other words, Mr. Connolly (as a lawyer), I am trying to defend. And I am not doing so in any disparaging way. I am naming saying that they are being accused and I am trying to defend their position.

Mr. Winston C. Connolly, Jr.: Mr. Chairman—

Hon. W. McKeeva Bush, Leader of the Opposition: You should too; because you were there . . . you are—

Mr. Winston C. Connolly, Jr.: Mr. Chairman, it's exactly with that hat on that I was raising those because this is a public forum and if they aren't named in the report then we are raising some allegations, or some names for the first time.

Hon. W. McKeeva Bush, Leader of the Opposition: I called names, Mr. Chairman, because we found . . . what it says here on page 26, and this is what went out, we saw the whole thing play out in the papers. At point 119, "**We found that the Board was operating in a capacity beyond the oversight role described above. For example:**

- Board members sitting on an interview panel to recruit employees at a grade level below senior management;
- Board members participating on project evaluation committees for procurement;
- approving application(s) for businesses to operate at the airports; and
- approving decisions for the disposal of equipment and the hiring of personnel."

Now, do they have that responsibility? Did they do it? Why must I come here and agree to a report when I have no knowledge of? I don't know. And I am sure the two Members across the way don't know. I am sure that my colleagues don't know. I am sure members from the Treasury Department . . . and I am sure that you don't know.

The Chairman: Mr. Bush, I think we need to take a step back here. No one is asking at this point to agree to or disagree with a report. We are simply taking the evidence and as a Committee we have to consider this at the end of it.

Now I think things, in my mind, are just getting a bit too heated and we are getting to a point where we are naming people and calling names and I am very uncomfortable with the Committee doing that when they are not named in the report. I think we need to pull back and just cease from doing that.

At this time I am going to try to bring things to a close for the lunch period, but are there any final questions for these witnesses?

Mr. Winston C. Connolly, Jr.: Mr. Chairman, I do have a question because if . . . and this goes back to not naming names, but asking Mr. McCoy whether or not the Authority has hired any employees whatsoever on the advice or direction of politicians.

Mr. Kerith McCoy: Mr. Chairman, not to my knowledge. Any content regarding the recruitment of staff with Board members or political directive, I am not aware of.

The Chairman: Thank you.

Mr. Winston C. Connolly, Jr.: And, Mr. Chairman, through you to Mr. Bush, I think that, in my mind (wearing my lawyer's hat) is the appropriate line of questioning; not naming specific names. I mean, we are all here looking out for our constituents. But once we bring them in the public forum in a public setting then those names can be reported and, in some instances, people can make certain inferences with those names. So I am uncomfortable with that.

Hon. W. McKeeva Bush, Leader of the Opposition: Mr. Chairman, Mr. Chairman, I . . . he asked about politicians. I am talking about Board members—two different things.

I certainly . . . if this report hadn't been made public, if it hadn't said "the Board" and if there was not an argument back and forth in the public arena already in both *CNS* and the *Caymanian Compass* by the members that I have just . . . and if they weren't already named . . . they were already named. They were already named—and accused and found guilty. And they are not here, and they haven't been asked any questions by anybody. And if we were doing the

right thing, Mr. Chairman, you would be calling them. Thank you.

Mr. Kerith McCoy: Mr. Chairman, if I may, just on a point of clarity. My response is in the context of this report before the Committee, year ending 30 June 2011, and, as I said, my knowledge specific to that timeframe. Any persons who were involved during the scope, or during the timeframe, of the scope which this report covers, my responses were framed in that context.

The Chairman: Thank you sir.

Mr. McCoy at this time we will excuse you and thank you for your testimony. We are going to break now for lunch. We will be back in one hour, at 1:20 pm.

Proceedings suspended at 12:20 pm

Proceedings resumed at 1:27 pm

[Mr. Roy McTaggart, Chairman]

The Chairman: I would like to call our meeting back to order. Welcome back, Members.

We are continuing our discussion and interrogation of witnesses with regard to the Auditor General's report on Financial Performance and Reporting—Statutory Authorities and Government Companies for year ending 30 June 2011.

I would like to call our next witness, Mr. Gilbert Connolly, CEO of the Tourism Attraction Board.

Mr. Connolly, take your seat on the right here for me, on the front row. Speak into the microphone and state your name and position for the record.

Mr. Gilbert Connolly, CEO, Tourism Attraction Board: Good afternoon, Mr. Chairman, and Members of the Committee.

My name is Gilbert Connolly. I am the CEO of the Tourism Attraction Board.

The Chairman: Thank you, sir.

Members, Mr. Connolly is available for your questioning.

Mr. Hew?

Mr. Joseph X. Hew: Thank you, Mr. Chairman.

Good afternoon, Mr. Connolly.

I will jump straight to the crux of it. Number 156 on page 32 where the Auditor General [says] at the second sentence, "**The only further comment I would make is that the internal control environment within the TAB is seriously deficient, and there are significant risks of fraud and error as a result, particularly with respect to revenues.**"

Can you say if, and what, measures you have taken to correct that?

Mr. Gilbert Connolly: Mr. Chairman, I thank the Member for that very important question.

Mr. Chairman, what we have done recently is to engage the services of a private accounting firm to develop a financial procedures manual. The intent is that once this manual is completed it will put in place the necessary procedures to address issues of controls, proper controls.

Mr. Joseph X. Hew: Thank you.

Mr. Winston C. Connolly, Jr.: Thank you, Mr. Chairman.

Hello Mr. Connolly. In terms of the report itself . . . you said you have hired an independent accounting firm, but what other steps have you taken to address some of the concerns listed, and I am talking about paragraphs 78 to 84, I guess 84 being the one that the Member just asked about, but the other points raised in the report on page 18.

Mr. Gilbert Connolly: Mr. Chairman, in addition to the manual that is being developed, we have (that is, my financial controller) put in place internal controls starting as far back as last year. So we have started to address these issues internally. But, as I said, we were expecting that the procedures manual, once in place, will have a significant impact on these issues.

The Chairman: Mr. Connolly, at paragraph 79 of this report the Auditor General talks about the cash and cash equivalents of the Tourism Attraction Board [TAB] and mentioned that two of them were kept outside of the records of the TAB. And there was a general lack of supporting documentation to these bank accounts, a result of which, affected his opinion on the financial statements of the . . . I think he said he was unable to opine on the completeness and accuracy of the cash and cash equivalents balances.

I mean, cash itself is something that is just so critical and so fundamental to the operation of any entity. I am just curious as to how these two accounts could operate outside the controls, or outside the records of the TAB.

Mr. Gilbert Connolly: Yes, I fully agree with you, Mr. Chairman.

The explanation to that issue is that two accounts were set up that were not under the TAB management. These two accounts were set up by a Board member and the manager of the Botanic Park. The reason for setting these two accounts up was to facilitate donations that were made to the Park for special projects, special funding. There are a number of individuals in the public domain who do not wish to have their donations co-mingled with the government's accounts, or government funding. So we would not be receiving the quantity and the amount of donations

that we have if that was not done, that is, the two accounts being established. This gives donors the comfort of knowing that their funds will not be co-mingled with government funding.

Following the findings by the Auditor General's staff, we have corrected that situation and the two members that were on the account have been removed. The signatures on the account now are not related to the TAB.

Hon. W. McKeeva Bush, Leader of the Opposition: Mr. Chairman . . . so he has changed the process of the bank accounts, but the accountability stands with whom?

Money given to government as a donation . . . I ran across that at times, Mr. Chairman, where people would say, *I will donate, but I don't want this handled by central government*. But nevertheless they are giving it to central government. So central government has some authority in when it is given to maybe try to get it separated but still the accountability is there. There has to be traces and verification of cash. There has to be records of deposits. And all that should be accounted for to the Board, thereby there would be some recommendation by the Board, or knowledge of, by the Board.

Mr. Gilbert Connolly: Mr. Chairman, as I indicated, there are individuals who absolutely would not be making donations if there was evidence to support that these funds that were being donated were managed by the TAB or by Government.

So, we have met the stipulation made by the Auditor General's staff. We have separated ourselves from these two accounts in that we have a private person whose signature is on the accounts. So the TAB staff no longer has any signatures on these two accounts. I think if we were to bring those two accounts under the TAB's control, we would eliminate a very good source of funding.

We have had individuals who have practically funded an entire garden at the Botanic Park. And that is only possible because they have the comfort that these funds are not managed by the TAB or Government.

I could add, Mr. Chairman, that once the funding is expired on the intended project, the assets are then transferred to our asset register. So, in that way we get the benefit of the funding. But my understanding is that these individuals who make these donations absolutely do not want Government to manage these accounts.

Hon. W. McKeeva Bush, Leader of the Opposition: Mr. Chairman, I heard that the public doesn't want, and I know of instances where people say that. However, who manages them?

So, people give in money and the director or the Board (which one?) appoints people to be the sig-

natories on that bank account? Then who manages it? Who says what the true balance is? Who?

Mr. Chairman, does it go back to two people? So there are two people, he said, from the private sector (I would gather) on that account. And those two people are accountable then to whom?

Mr. Gilbert Connolly: Mr. Chairman, the TAB does not account . . . sorry, does not appoint anyone to manage these two accounts. The name of the account is "Friends of the Park" and, as that title would suggest, these are individuals who want to contribute to the Park in the manner I stated previously.

So, everything is done at arm's length from the TAB. We do not get involved in the management of the accounts, following the recommendations made by the Auditor General's staff.

Hon. W. McKeeva Bush, Leader of the Opposition: Mr. Chairman, just so that I have it clear, somebody gives some money, there is an account set up. Now this money is to be spent for specific reasons at the Park, let's say (the Botanic Park), and then what happens?

Who puts who on the committee? If the Board doesn't put someone on the committee, who puts them on the committee, then?

Who put them . . . if there is no committee, who puts them on this account?

Mr. Gilbert Connolly: Mr. Chairman, sir, I can't answer that question; I really don't know who appoints any of the signatures to the account. As I said, historically we have had an arm's length with these two accounts. This whole thing only came to light because an accounting officer at the park inadvertently put accounting information from those two accounts into our normal accounts. That's how this whole thing came to light.

We have kept our distance from these two accounts and we are doing that even more so now that we do not have anyone from the TAB on the accounts. I don't know who makes the appointment to the accounts.

The Chairman: Mr. Connolly, I think the real crux of this is, Do these accounts represent assets of the Tourism Attraction Board? That is the real crux of the question here. Do they represent assets that belong to the Tourism Attraction Board?

Mr. Gilbert Connolly: To the best of my knowledge, Mr. Chairman, no, they do not. That was the whole rationale behind the change that was made.

The Auditor General's staff, when they looked at it, said that that was their interpretation, that it should be considered assets of the TAB. Hence, the reason why the Board member involved and the manager involved were removed from the accounts.

So, to the best of my understanding we do not consider them assets of the TAB; it is only after the funding is expended on a specific project for which it was donated, then those assets become the property of the TAB.

Hon. W. McKeeva Bush, Leader of the Opposition:

Mr. Chairman, is there an outside committee? Is there a committee then that is . . . or something that . . . because what I am still not gathering is . . . there is something missing here because somebody gives some money. And we know that that has happened. So they give the money to whom? They give the money to the Botanic Park. Is it the manager of the Botanic Park who then sets up the account and he/she appoints two people to be the signatories that are not within his area of responsibility, or on the Board, or what? How does anybody manage them? Where is the money?

I mean . . . so the money is there. You are not accountable for it. He's not accountable for it (the Botanic Park manager). So who is accountable for it? How does anybody know what the balance [is], or what has been deposited, what has been given? That's all I am trying to find out, Mr. Chairman.

Mr. Gilbert Connolly: Mr. Chairman, I appreciate the question asked by the honourable Member. Unfortunately, I can't give the specific answers that he is seeking.

Hon. W. McKeeva Bush, Leader of the Opposition:

But all these years, Mr. Chairman, and for a number of years I have had responsibility—never heard anything about it. I just heard that there was an account. I tried to get some information, can't get it, as I can't get it today.

But there has to be some knowledge of somebody giving money that is going to ABC bank, and on that bank record there are two signatories. Well, how did they get on there? Did the donors give it to those people? How is it done?

Mr. Gilbert Connolly: Mr. Chairman, I can only undertake to seek that information and provide it to honourable Members.

Hon. W. McKeeva Bush, Leader of the Opposition: Perhaps.

Mr. Joseph X. Hew: Perhaps, Mr. Chairman, through you . . . am I understanding, Mr. Connolly . . . or my understanding of it from you is that a group of private individuals have formed a group called "Friends of the Park." They have opened a bank account where they receive donations, put it in that bank account and then they build—whether it be cages, or gardens or bridges—whatever, at the Park and then they transfer those assets to the park?

Mr. Gilbert Connolly: Mr. Chairman, that is my understanding.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, I mean there are obvious concerns with that type of arrangement. But one that I . . . just to get my mind around what actually happens with the TAB, does the TAB still get Government subsidies to survive?

Mr. Gilbert Connolly: Mr. Chairman, that is correct.

Mr. Winston C. Connolly, Jr.: Okay.

So my issue with receiving money on a donation basis is that if Government doesn't know that that money exists, or that there is an offset and it will still continue to fully fund or fully subsidise the TAB, when it could, in fact take some of that money and use it for other areas, and have that donation act as a counter balance. I think, for me, that is one of the primary reasons why core government should at least know what those amounts are, what those donations are and what they are being earmarked for.

In addition I would have concerns with the source of that funding and how you do due diligence on that source of funding. But, that being said, you have said that you will go away and speak about that aspect of it. But I think just for good governance and also just from a responsibility standpoint, Government should know what those amounts are.

Mr. Gilbert Connolly: Mr. Chairman, again, I will undertake to provide that information to the Committee.

Hon. W. McKeeva Bush, Leader of the Opposition:

Mr. Chairman, the Auditor General's report says, "Based on the omission of two bank accounts from the TAB's records as well as lack of supporting documentation related to these two bank accounts, my verification of cash was limited to the amounts recorded in the records of TAB. As a result, I was unable to opine on the completeness and accuracy of the cash and cash equivalents balance of \$1,332,367 . . ." [paragraph 79]

Is there any knowledge of what the two accounts have in them? Did the Auditor General find that out in his records?

Mr. Patrick Smith, Audit Principal, Office of the Auditor General:

Mr. Chairman, I think it would be useful just to give some background to these accounts before I answer the question from Mr. Bush.

The submission that was made to us was actually just reconciliation of these accounts. We needed to get more support with regard to the actual bank statements for the accounts which brought to our attention the fact that the accounts that existed, however, were not recorded fully on the financial statements for the TAB.

The origin of the accounts apparently came about through one of the chairmen of the Board of the TAB. Our concern about the matter was that being that it was established by a TAB Board member, and also managed by the Board member and also the management from the Botanic Park suggests that these accounts belong to TAB. However, the thought process from TAB that was said to us was that, ultimately, the accounts basically were more of a private account.

To answer the question directly, we didn't have the full dollar value of what was in the account, so we couldn't basically include in our opinion.

Hon. W. McKeeva Bush, Leader of the Opposition: So they didn't have . . . if I understand what he is saying, he doesn't know what the balances were, what the amounts were.

The Chairman: No, I think he said that he . . . I will leave you to explain.

Mr. Patrick Smith: Yes, Mr. Chairman.

No, we didn't have all the information to actually say exactly what the value was.

Just for clarity, I am Patrick Smith, Audit Principal.

Hon. W. McKeeva Bush, Leader of the Opposition: So nobody knows what's in the accounts. Does Mr. Connolly know?

Mr. Gilbert Connolly: Mr. Chairman, I don't personally know. I only became aware of those two accounts when the auditors brought this to light. I had no previous knowledge that these two accounts existed.

The Chairman: But I understood your testimony earlier was that a Board member and a member of staff who were signatories on the accounts are no longer signatories on the accounts. Is that correct?

Mr. Gilbert Connolly: That is correct, sir.

The Chairman: Okay.

So, effectively, I want to make sure I am understanding as well, it has finally been determined that these are private funds and not funds that belong to the TAB.

Mr. Gilbert Connolly: Mr. Chairman, I think that was the whole purpose of the change that was made and the issue that the auditors had with the arrangement.

The Chairman: Okay.

I just want to make sure that this is not something that is truly an asset of the TAB, but operating outside of the realm and purview of their controls and direction.

Mr. Patrick Smith: Yes, Mr. Chairman.

Your point is correct. The intent was that by removing the manager from the TAB and also the Board member there would be more of a private entity established, like a trust, as Mr. Connolly indicated, that is actually responsible for the funds. Because I think what TAB is suggesting is that the funds aren't theirs until they are actually being spent or basically being transferred to them to be spent on projects at the Park.

So to basically create a separation, the suggestion was that there will be a private trust set up with no money from TAB being part of that trust, or soon-to-be trust, and that those funds will be held privately until transferred to the Park.

Hon. W. McKeeva Bush, Leader of the Opposition: So, Mr. Chairman, it sounds like everybody is very happy with the scenario. But let me see if this is how it looks to everybody.

Somebody gives money—and we don't know who it is, as an entity of Government . . . now, I was Minister. I heard about it; tried to find out, and up until now I still can't find out. Don't know what the balances are, don't know anything about it. And we are happy then that that's so because there is some entity—and we still don't know who the entity is that's getting the money, nor who is giving it—so in all our good governance, now, that's good. Yeah, right.

Mr. Gilbert Connolly: Mr. Chairman, the only thing I can add to that is that if we don't have that arrangement, or a similar arrangement, to satisfy the people who are donating, that source of funding would dry up for the TAB.

Hon. W. McKeeva Bush, Leader of the Opposition: Well, I am not going to say that it will or it won't. What I am saying is, though, that if there is somebody . . . that the openness, transparency, accountability and good governance, all those buzzwords that now everything is panned on in this country, whoever is giving, granted they don't want Government managing it, but Government ought to know who is giving. And maybe there is . . . let's say an individual doesn't want their name. But still we have to know where the money is coming from because we are Government. So that's one.

Two, there has to be knowledge . . . the Board ought to know whether there is two cents in it, or two million dollars. Not that they are managing; but there is money out there spread around, doing this, doing that, and there is no knowledge from our side as to who gave, how much exists, how much is the balance, what it costs to build what we are getting. I don't think that that is right.

I know, Mr. Chairman, because I can tell you, [in] 1992 when I became Minister of Sports, an indi-

vidual gave \$5,000 (because we had no sports facilities, remember). That \$5,000 sat in government for five years because Government did not accept donations at that time. People have turned around. Government now accepts donations. But it was not spent. We gave it back, as far as I can remember.

Back then we didn't.

The Chairman: Any more questions for Mr. Connolly?

Mr. Winston C. Connolly, Jr.: Mr. Chairman, in terms of the property plan and equipment, has there been now a comprehensive review? And has that been corrected? Do we know what we own? And do we know basically how . . . or have we corrected the depreciation expense?

Mr. Gilbert Connolly: Mr. Chairman, yes, a valuation was done on our assets. That's the reason why this appears in the account as an item.

The Auditor General decided that once the valuation was presented to him that that valuation should have reflected in that year's account, even though it was presented after the financial statements were submitted to the Auditor General. So, the answer is, yes, we now have a current evaluation of our assets.

The Chairman: The Auditor General also talks of his inability to opine on the receivables balances (I'm talking about paragraphs 83 and 82), and overall revenue balances of \$2.8 million at June 30, 2011. What steps have you taken to address these issues to ensure that the Auditor General is able to opine on all elements of your financial statements?

Mr. Gilbert Connolly: Mr. Chairman, that particular issue is also connected with the two bank accounts that we have been discussing. We have also, as far as procedures, put in place safes at the attraction sites to safeguard the cash that is collected. We now have instructed staff to make deposits in a more timely fashion. And staff has been complying with that. So we have been taking some steps to ensure that this issue is corrected.

Hon. W. McKeeva Bush, Leader of the Opposition: Mr. Chairman, what efforts has the TAB taken to increase the revenue there to the government?

Mr. Gilbert Connolly: Mr. Chairman, we are presently working on the development of a business plan, particularly for Pedro [St. James]. We are projecting that with the implementation of this business plan we will see an improvement in revenues at Pedro.

Hon. W. McKeeva Bush, Leader of the Opposition: A business plan? When was that started, Mr. Chairman?

Mr. Gilbert Connolly: Mr. Chairman, I commissioned that business plan at the beginning of this month.

The Chairman: Is that business plan then completed, or nearly complete?

Mr. Gilbert Connolly: It has progressed very well, Mr. Chairman, and I suspect that we should have the business plan completed by the end of September, or first week of October.

Hon. W. McKeeva Bush, Leader of the Opposition: Mr. Chairman, in connection here with this revenue and receivables [paragraphs] 82, and 83. How is the director finding the cost to run the TAB, and Pedro St. James in particular? What efforts are made to keep down costs? For instance, legal costs. What were the legal costs for the TAB in the last two years? And what kind of legal costs would they run into?

Mr. Gilbert Connolly: Mr. Chairman, sir, I don't have the exact figure for the legal costs. I will undertake to provide that information for the honourable Member. However, Mr. Chairman, I would like to add that the TAB has been cutting back on staffing for several years. We have a very small management team. I don't have a deputy, I don't have an HR person, I don't have a marketing person. I have to do those responsibilities myself.

I also believe that it is important to get legal advice where necessary. So I have to draw on getting this advice. And I think it is important that we get legal advice, because in today's world there is a legal implication to just about everything that we do. So I don't have a lot of human resources within my organisation that I can draw on. Therefore, I have to rely on drawing on advice externally.

Hon. W. McKeeva Bush, Leader of the Opposition: Mr. Chairman, in the new business plan he is talking about, because hopefully that is going to improve the situation and hopefully lessen government's grant to the TAB, but will it be able to . . . in this new plan, is it going to ensure what types of direct marketing assistance the TAB will provide, for instance, to Pedro St. James?

And in this new business plan, the matter we just talked about, is it going to address somehow when grants are made to any of our entities under TAB that the governance model will be that there is some kind of accountability? Or we are not going to address it?

Mr. Gilbert Connolly: Mr. Chairman, the business plan will not address the issue of donations, as in the case of the Botanic Park. We don't have similar donations at Pedro St. James. So the business plan will not address that particular issue.

As far as reducing costs, Mr. Chairman, I don't like to blow my own trumpet, but from the time I joined the TAB I have been cutting back on staff—long before central government started doing so. And we operate now at a critical level of staff complement.

Hon. W. McKeeva Bush, Leader of the Opposition: But you will agree that staff increased under you.

Mr. Gilbert Connolly: Mr. Chairman, I certainly can't agree with that, sir.

When I joined the TAB the staff was close to 40. Now we have . . . close to 50, sorry. We now have 38 members of staff. I have been cutting back. I have vacant posts that haven't been filled for years.

Hon. W. McKeeva Bush, Leader of the Opposition: But—

Mr. Gilbert Connolly: I remember—sorry, Mr. Chairman, if I may add—when I joined the TAB, Pedro St. James had four tour guides. We have been operating with two tour guides for many years. We don't have a deputy general manager at Pedro. That post became vacant after [Hurricane] Ivan, and I have not filled that post.

We have a post for a marketing manager which is vacant. So we have been operating at a very critically low staff complement for years. And I think it is adversely affecting the TAB.

The Chairman: My final question to you, Mr. Connolly, going back to paragraph 81 with regard to the equity. The Auditor General makes mention of some significant unadjusted balances during his audit which impacted on the accuracy of the equity. He concluded that the equity balance was not fairly stated.

It strikes me that with the issues, with the property plan and the equipment, your equity, your revenue and your receivables, that in totality there are some issues regarding the ability of the Tourism Attraction Board to discharge its responsibility in accounting for all of its transactions and ensuring that it produces financial statements that present fairly the financial position and the results of operations.

What are you doing about these things in trying to remedy them?

Mr. Gilbert Connolly: Mr. Chairman, that particular issue has to do with the re-evaluation of the assets which we spoke about before.

As far as what we are doing, again, we take steps internally to address these issues when they are raised by the Auditor General's staff. And, again, depending on the financial procedures manual, when that is completed, to really address these issues.

The Chairman: Mr. Connolly?

Mr. Winston C. Connolly, Jr.: Mr. Chairman, also noted in paragraph 84 was the lack of, or the incomplete, register of interests and the non-compliance with IFRS [International Financial Reporting Standards]. Is this part of the . . . well, is the compliance with IFRS part of the manual and procedure? Or is that separate? Are you compliant now with IFRS? Or will that come after you have gone through this exercise?

Mr. Gilbert Connolly: Mr. Chairman, in regard to that specific issue with the register of interests, we did have a situation where a Board member did not complete the necessary forms. That has since been done, and now we are also requiring senior managers to complete a register of interest form.

So, yes, I accept that that is an area that we could have easily complied with and it wasn't done. But going forward we will be complying with that particular requirement.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, then just one additional question from me. In terms of this report—and it showed serious lack of governance in terms of assets, processes, et cetera, some serious concerns there—have there been any findings of impropriety with any of the Board members or with any of the people associated with the TAB between this report and now?

Mr. Gilbert Connolly: Mr. Chairman, there has not been any findings of impropriety. There were findings of serious breakdown in proper controls. We had a situation at the Pirates Week Office which we requested the Auditor General to do a special investigation of that situation, which the Auditor General's staff did and presented a report. The report, while it found serious lax in following proper procedure, there was no actual finding of fraud.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, again, through you, if we didn't have the controls and all the other things in place, how can we be so sure? Are you just saying that now that the Auditor General has done this review we feel that everything is hunky dory, but for the works on the process? Or is it that there needs to be other audits on certain of the other aspects, especially when you are talking about the questions raised on revenue and other areas of accountability?

Mr. Gilbert Connolly: Mr. Chairman, I would like to add to the Member's question that we recently were notified by government's internal auditors that they will be conducting a full audit review of the TAB starting this month. So I certainly welcome that development and anything that is out there I think this internal audit review will definitely pick it up.

Mr. Alastair Swarbrick: Mr. Chairman, just for clarification from the perspective of my office in terms of the additional review work we carried out at Pirates Week, while we didn't actually find specific incontrovertible evidence of any fraud or misappropriation, our findings were indicative there was potentially a fraud or misappropriation there. But there was incomplete information for us to actually reach any incontrovertible conclusion regarding that.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, I will just ask the question of Mr. Connolly, how sustainable is the TAB, given all this information and the lack of checks and balances?

Mr. Gilbert Connolly: Mr. Chairman, I think that the TAB is sustainable. I acknowledge that we do have some serious problems. But I think, as I said, we have taken steps to address those problems.

Mr. Joseph X. Hew: Thank you, Mr. Chairman.

Mr. Connolly just mentioned that he is taking steps to address those issues. He mentioned earlier that he has attained a private accounting firm, I think he said.

Mr. Gilbert Connolly: That is correct, sir.

Mr. Joseph X. Hew: So do you feel that you now have the organisational capacity to address all of these concerns? Or do you feel that you need further help in that capacity?

Mr. Gilbert Connolly: Mr. Chairman, again, the development of the government's internal auditors coming to perform a full audit, I think is a major step in identifying any other additional issues that we have. Obviously I expect that the internal auditors will make recommendations on how to resolve those issues.

The Chairman: So if I hear you correctly, then, Mr. Connolly, you are relying on this internal audit. You are also looking at this financial procedures manual as being the basis upon which you deal with the issues particularly, or counting on them being able to highlight and to be able to deal with these issues.

Are there any other things that you might be carrying out, or intending to carry out, to specifically ensure that you are able to manage these risks and deal with them going forward? Any other areas of good governance that you might be looking at?

Mr. Gilbert Connolly: Mr. Chairman, at this point, no sir. We are relying a great deal on having the procedure manual in place and looking forward to the completion of the internal audit. As I said previously we do implement our own procedures and controls as well.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, in light of the lack of proper governance, I think in earlier testimony the Auditor General stated that in at least one other government body they have given advice on Board functions, rules, conflicts, et cetera. Has Mr. Connolly reached out to the Auditor General or gotten some independent third party to assist in that area specifically? Not just the accounts, but the overall governance and rules, Board management and any other employee of the TAB.

Mr. Gilbert Connolly: Mr. Chairman, we have not . . . the Board has developed a code of conduct, for one thing, principles of how the Board operates. But there has been no further development in that area, sir. And the Board has not reached out to any other individual or third party to assist in developing rules and responsibilities for the Board and for myself. We don't have that in place as yet.

The Chairman: Any other questions for Mr. Connolly?

Mr. Winston C. Connolly, Jr.: Just a suggestion, Mr. Chairman, that that should be a matter of priority in light of their report.

I think that the public needs to be comfortable that monies given to the TAB are spent wisely, that revenues coming in are being put in the proper accounts. It's a very public-facing body, especially with things like Pirates Week that goes out to the private sector for donations, et cetera. I think a lot of the public will be happier and feel more comfortable if they know proper systems are in place because I think that both from a Government perspective (and I am only looking at speaking for myself), I would have a hard time allocating funds, et cetera, knowing that proper systems are not in place, and that areas of responsibility, et cetera, are not clearly defined in any government body.

Mr. Gilbert Connolly: Mr. Chairman, I fully agree with everything the Member has said. I will certainly urge the Board to put those measures in place.

The Chairman: Thank you, sir.

Any other questions for Mr. Connolly?

Mr. Connolly, thank you for your testimony to this Committee. We will excuse you at this point in time.

Mr. Gilbert Connolly: Thank you, Mr. Chairman.

[Witness departs]

The Chairman: Okay, I understand that Mr. Paul Hurlston is available to us now. So at this point I would like to call our next witness, the Port Director, Mr. Paul Hurlston.

[Pause]

The Chairman: Good afternoon, Mr. Hurlston. Please have a seat here on the right.

Mr. Hurlston, thank you for being here. I understand that you had an issue this morning with other meetings that were taking place, but the simple fact of the matter is that you confirmed your attendance at this Committee. I would have been happy to excuse you had you given us sufficient notice.

With that, I would just say, welcome to the Committee. I ask if you would speak into the microphone and state your name and your position.

Mr. Paul Hurlston, Port Director, Port Authority of the Cayman Islands: Paul Hurlston, Port Director.

The Chairman: Members of the Committee, Mr. Hurlston is available for your questions.

[Pause]

The Chairman: Mr. Hurlston, if you don't mind, I will begin the questioning. I am very much concerned with the statements made by the Auditor General in his report with regard to the . . . and the emphasis he placed in his opinion on your financial statements regarding the ability of the Port Authority to continue as a going concern.

A going concern assumption is just fundamental to the preparation of any entity's financial statements. And I am just curious to know what steps you and/or your Board are taking to ensure the continued viability of the Port Authority to ensure that it can continue as a going concern and meet its obligations as and when they fall due.

Mr. Paul Hurlston: Thank you, Mr. Chairman.

We, as management, have identified over the years that the business of the Port Authority in terms of cargo volume and cruise ship passenger volume was falling. We have taken all steps that we could to reduce expenditures, but there is a point where the revenue becomes less than expenditure and we find ourselves in the position that we are in now.

Back in 2011, I think in December, KPMG produced a report on the Port Authority's cash flow position and came up with various suggestions of how the Board could implement various policies and fee increases. However, that was not acted upon, and I have again approached the Board just recently for them to study the Port's financial position and to look at ways that we can increase revenue and, if we can, reduce expenditure. But we have been looking at it over the years.

The Chairman: Can you tell us, for my own benefit, how long . . . I mean how many years now has the

Port Authority been sustaining financial net losses each year?

Mr. Paul Hurlston: I think it's about three years now.

The Chairman: Okay.

So from about 2010?

Mr. Paul Hurlston: Yes, around 2010 . . . yes, 2009, actually we started.

The Chairman: Okay.

I mean, I am trying to get a flavour here for just how serious the financial position is of the Port in terms of going forward and . . . I mean, have you done cash projections as to what your needs are and whether you will be able to generate sufficient cash flows to sustain your operations without Government intervention in the form of subsidies?

Mr. Paul Hurlston: At this stage, I think the biggest accounts payable is to government, and it is for property insurance. We have been able to pay all other bills outside of the property insurance to government, which stands about a million a year, I think.

The Chairman: Okay.

Mr. Connolly?

Mr. Winston C. Connolly, Jr.: Mr. Chairman, due to the serious matters raised by the Auditor General's report, especially in terms of paragraphs 154 and 155 (I am not doing these in any particular order, I just think because we are talking about the Board, I will just go into this) where serious concerns were raised where members of the Board were acting as agents in contract negotiations and signing service level agreements . . . well, that was the chairman. And also in terms of procurement where you weren't going through the regular tendering process and just using one source. Can you tell us what has been done since the Auditor General's report and how this won't happen again with this new Board?

Mr. Paul Hurlston: Mr. Chairman, on the first item, 154, I believe that the current Board is aware of the Auditor General's report. They discussed it in a meeting, so they are aware of that. Going forward, I guess it will be for them to put their policies and practices in place that would not let that occur again.

If I could just expand on the second matter, the procurement of goods, I think that is relating to specifically crane parts. As you all know, the Port operates with two cranes. They are Manitou cranes and the parts for those cranes have to be Manitou parts. They are old cranes, and we are limited, sometimes, where we can get the parts. Sometimes we have to get parts made.

We have found over the years a particular supplier out of Cleveland, Ohio, that has been very good for us in terms of going and sourcing parts, for us because Cleveland is close to where the cranes are made in Manitou, Wisconsin.

We also over the years have had to bring in mechanics to work on the cranes because there is no local expertise. So that . . . again, we found one particular mechanic who was able to do electric hydraulics and probably everything with the crane. We have recently taken him on board because we are at this point where we decided it's too expensive to be bringing someone here whenever we need them. We are going to have a fulltime mechanic. And the second thing is, he is now currently training our Caymanian operators in the detailed mechanics of the crane.

Hon. W. McKeever Bush, Leader of the Opposition: So the information the Director has just gave is in response to this matter of what?

Mr. Paul Hurlston: [Paragraph] 155.

Hon. W. McKeever Bush, Leader of the Opposition: Your procurement. And it is that the procurement process carried out because you have sort of one supplier. That's what you are saying?

Mr. Paul Hurlston: Yes, sir. We initially used to go through Miami, a Manitou dealer in Miami. But they had some difficulty with them securing the parts and after trial and error . . . you have to understand this has been going on for many years, because we have had the cranes since 1997. So we have had a lot of experience with where to get parts from and who gives us a good service.

Hon. W. McKeever Bush, Leader of the Opposition: And, Mr. Chairman, the service level agreement for the repairs of the Port Authority, is that the same situation? (I am on 154.)

Mr. Paul Hurlston: No sir.

Hon. W. McKeever Bush, Leader of the Opposition: What kind of situation did that entail?

Mr. Paul Hurlston: I am not 100 per cent sure what that particular situation is, but I could get it.

Hon. W. McKeever Bush, Leader of the Opposition: What it says is ". . . we noted that the Chairman of the Board signed a Service Level Agreement (SLA) for the repairs of the Port Authority's facility and then directed it to the Port Director who signed it a day later."

Now, all this is just about good governance, not saying there was anything untoward. What it is saying is that Board members shouldn't be involved in

the operations of the entity. So basically it is a governance matter.

I am just trying to ascertain what type of service level agreement that would have been.

Mr. Paul Hurlston: Mr. Chairman, I just got an update.

It was actually an agreement with Public Works to look at doing some repair work at the Royal Watler Cruise Terminal.

Hon. W. McKeever Bush, Leader of the Opposition: It is something that the Director knew about? Or the staff knew about?

Mr. Paul Hurlston: Yes sir.

Hon. W. McKeever Bush, Leader of the Opposition: Thank you.

And, Mr. Chairman, on the tabling of the annual reports, what is the problem with it?

Mr. James Parsons, CEO, Port Authority: Mr. Chairman, James Parsons. The tabling of the annual reports . . . well, when the audited financial statements are given to the Port Authority, we prepare the annual reports and we send it on to the Ministry. It is left to the Ministry, then, to table them in the Legislature.

Like I was saying earlier this morning, 2012 was tabled prior to 2011. And I got a call from the Ministry not too long ago asking for the information for 2011, and I told them I had given it to them already. Eventually they found it. I don't know if they tabled it yet. I didn't get back to them to ask anyone that.

The Chairman: Other questions?

Hon. W. McKeever Bush, Leader of the Opposition: The matter about the fee increases on various aspects of its operation. I think we heard this morning that costs increased dramatically because of various matters that the Authority had to tend to, put in place, [such] as new security system which I knew was costly; but also that the serious downturn in the economy affected the ability of the Port Authority to make money from the latter part of 2008, when the economy started to take a downturn.

With this proposed new increase, does the Director feel now that that is going to be the panacea to bring the Port Authority back into a better financial position, seeing that the economy is down and seeing that the Port Authority lost revenue and cargo at about 50 per cent, I think, for several years now. Would the Director say that this is going to bring it back in line?

Mr. Paul Hurlston: Mr. Chairman, I believe that all things else equal, if we continue to reduce expenditures as much as we can and we do adjust fees, I be-

lieve the Port will be in a better cash position, even at the current levels of activity.

Hon. W. McKeeva Bush, Leader of the Opposition:

In regard to our annual subsidy to the Sister Islands, which is at about \$500,000, what is being done to bring that to a different level?

Mr. Paul Hurlston: Mr. Chairman, there is not much we can do, sir.

The overall activities in Cayman Brac in terms of traffic is very low and I don't see it increasing in the near future, or the foreseeable future.

Hon. W. McKeeva Bush, Leader of the Opposition:

We have always had to subsidise it.

Thank you.

The Chairman: Other questions?

Mr. Hew?

Mr. Joseph X. Hew: Thank you, Mr. Chairman.

I am not sure . . . obviously there are items 149 through 151 in the report. I am not sure what the Chair's views, or how Mr. Bush feels since they are in relation to him, whether he is comfortable with us addressing them here or—

Hon. W. McKeeva Bush, Leader of the Opposition:

No, Mr. Chairman, if . . . I am sure that anything that can be done to enlighten—or that is what it is supposed to be—should be done. I am not a witness here; I am a member of this Committee. And I can ask questions, and I do know facts. So proceed as you will, as far as I am concerned.

Mr. Joseph X. Hew: Mr. Chairman.

The Chairman: Go ahead sir.

Mr. Joseph X. Hew: Mr. Hurlston, in the Auditor General's report, items 149 through 151 speak to where employees were hired under the instructions of the then Premier, Mr. Bush, and also to the value of the contracts that they were hired for, and at that stage there was no evidence of them being completed. Can you update us on that please?

Mr. Paul Hurlston: Mr. Chairman, the instructions . . . as you will know, the Premier was also the Minister of Tourism in charge of the Port. So it was within his Ministry that the Port Authority falls. We were asked to hire two individuals to monitor the North Sound Sandbar activities.

Mr. Winston C. Connolly, Jr.: I have a follow-up question to that.

The report said why they were hired. Can you tell us the scope of the work carried out, and how this

was accounted for, and the total amount, just for the record, of how much they were paid for that work?

Mr. Paul Hurlston: Mr. Chairman, I believe that they reported to the Ministry directly. And they were paid \$1,000 per month, each, for their services.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, what were those services?

Mr. Paul Hurlston: Monitoring the Sandbar activities with boats.

Mr. Winston C. Connolly, Jr.: And how do we account for that monitoring? Were there reports made? Were there reports filed?

Hon. W. McKeeva Bush, Leader of the Opposition: To the Ministry.

Mr. Paul Hurlston: Mr. Chairman, the reports were filed with the Ministry. We didn't . . . the Port Authority didn't get the reports. But if there were any filed, they were filed at the Ministry.

Mr. Winston C. Connolly, Jr.: And can you then explain, when they were terminated and re-hired, how that occurred?

Mr. Paul Hurlston: That was probably a Board decision back in 2005 when they were terminated.

Mr. Winston C. Connolly, Jr.: But then . . . I guess there is a muddying here because the Board seems to have done some things, the Ministry seems to have done other things. Whose responsibility is it to hire people at the Port and account for the monies spent on their services?

Mr. Paul Hurlston: The hiring at the Port comes under the Port Director. But I report also to the Board and to the Ministry.

Mr. Winston C. Connolly, Jr.: Forgive me, Mr. Hurlston, because I have just recently joined Government. I was told that as an elected Member I didn't have any say in hiring or firing. That would be done in the Ministry, by the CEO, and under the auspices of the Deputy Governor. Are you saying in these instances there was no separation of Ministry and Port? And, if so, is this an isolated case? Or have there been other instances where people were hired under the advice of (a) the Ministry; and (b) specific MLAs or members of Cabinet?

Mr. Paul Hurlston: I think that situation occurs, yes.

Mr. Winston C. Connolly, Jr.: In your Authority? In the Port Authority?

Mr. Paul Hurlston: In the Port Authority, yes.

Mr. Winston C. Connolly, Jr.: I guess my obvious question would be, how many of those instances have occurred that you can recall?

Mr. Paul Hurlston: I couldn't put a figure on that.

Mr. Winston C. Connolly, Jr.: More than five? Less than ten?

Mr. Paul Hurlston: I have been the Port Director 12 years, and at the Port 21 years, so probably quite a bit, yes. I couldn't put a figure.

Mr. Winston C. Connolly, Jr.: And you are saying that that has happened throughout the whole time that you have been there?

Mr. Paul Hurlston: Yes.

The Chairman: Mr. Hew?

Mr. Joseph X. Hew: Mr. Chairman, I just want to clarify . . . they were hired through the Ministry then terminated by the Board and then rehired by yourself. Is that the series of events? Am I reading that—

Hon. W. McKeever Bush, Leader of the Opposition: And with Board knowledge.

Mr. Joseph X. Hew: Pardon?

Hon. W. McKeever Bush, Leader of the Opposition: Hired with the Board's knowledge.

Mr. Joseph X. Hew: Hired with the Board's . . . okay. But that is the series of events?

Mr. Paul Hurlston: I think so.

Mr. Joseph X. Hew: Okay.

My other follow on to that is, am I understanding from the Auditor General's report here, item number 150, that . . . is this related to the same two employees, that there were supposed to be some buoys installed or . . . yes, that there was supposed to be an installation of buoys. Or was that a separate contract?

Mr. Paul Hurlston: Mr. Chairman, that was from the original contract back in 2004. I think we had installed some temporary buoys, but then we bought the more robust system to install. Unfortunately, [Hurricane] Ivan came along and changed everything. So that never happened. I think that's what that relates to.

Hon. W. McKeever Bush, Leader of the Opposition: Okay, Mr. Chairman, now my turn.

The Chairman: I knew that was coming, sir.

Hon. W. McKeever Bush, Leader of the Opposition: Oh yes. I am not a witness; but one thing I am right now is a material witness.

Mr. Chairman, just in case—because some people didn't pay attention to probably what was happening in this country, only very recently—but the North Sound operation, in particular the Sandbar, was nothing but a headache for tourism at the dock, cruise. It was nothing but a headache.

There were meetings. It was one thing that I and the Ministry spent a meeting every month on, dealing with those matters—the Sandbar, its operation at the Port. And back then we asked for something to be done about the situation. Well, nobody could get anything much done. So much so that we had to hire at the Port level somebody to sort of conduct affairs in security at the Port, separate and apart from what is now the security.

Anyway, that's way back. And at that time nothing really improved at the North Sound. There were complaints upon complaints—and the Port Director is here, and I hope that he can verify what I am saying—that were taking place. Complaints from the cruise industry, people out there getting damage; the cruise association complaining; various cruise ships making complaints. There were boats that were overloaded. There were boats that were going up on the Sandbar itself while people were there. And that was one of the biggest problems.

At one point we had one or two boats that capsized loaded with people. Nothing I could say, nothing I could do as Minister prevailed. So we came up with the idea of having people who were in the business and people who had been there a long time and knew the business that we could trust to get them to try to on a daily basis see what was going on, keep an eye on what was going on. In fact, we said the Port would (and that's where item 150 comes in) put in some sort of buoy system around the Sandbar.

But, as the Port Director said, the hurricane came and everything fell by the way. So, it wasn't the responsibility of the two persons to purchase that or anything; that was the Port's responsibility. And I think we actually purchased, and I think we lost some of those buoys in the hurricane, if I remember, if not all of them. So some of it got done; but not all of it got done because of the hurricane.

But we had monthly reports. The Board agreed (before I get to that) to hire them back at that time. In 2005 they were terminated—politically. Political decision. And the situation just went back to the old thing—people up on the Sandbar with their boats; boats overloaded; more complaints from the cruise association. And for those four years that's what happened.

In 2009 the Ministry took the decision, with the Director, with the Port Chairman (who, we were told, was part and parcel acting with agreement from the Board). I was not a part of the Board; I was the Minister. We had a chief officer and other staff members involved. I was the Minister, so the buck stops with me. We put the system back in place, but with the knowledge of that then Board. And the reports were made and kept us up to date. We could improve.

And today the situation is much better. In fact, we don't have those situations any more of where the boats were going on the Sandbar itself, beating down the Sandbar in some instances, eroding that to disburse their people. Systems were put in place where they stand a ways off now. They don't go up on the Sandbar any more. So the situation improved.

As to the payment, did we think we'd get it done for nothing? It's very funny how we expect that people can come to work for us for barely nothing and then when we have to charge, government certainly is not reluctant about putting in or trying to put in the proper charge. So \$1,000 per month, I don't think was an over payment for the work that they did. The situation improved.

Every month, Mr. Chairman, there were meetings about the Sandbar, about the situation at the Port itself. Sometimes pure warfare out there. Sometimes they had to call the police, until we hired . . . and even with the person that is in charge, we still had to call the police at times. So much so that, after I was no longer chairman, the meetings lessened, because I just told them, as Minister, either they were going to abide by certain rules and regulations, or I was certainly not going back to have any more meetings because you would make rules and regulations, they couldn't live by them, you had to get new ones on a weekly basis.

So, in regard to this matter about interference—because that is what they are trying to say here—that was good interference. Hear what I am telling you? It wasn't something made by the Minister by himself. It wasn't something done by the Minister. The Minister had to pass it on to the Director. It was something that was agreed.

And by the looks of it, they should be hiring a whole lot more people, as many Caymanians that are out of work.

The Chairman: Okay.

Other questions for these witnesses?

Hon. W. McKeeva Bush, Leader of the Opposition:

Mr. Chairman, the Director is here. And if any of them have any doubt about what I am saying, ask him, because he knows. He was very involved with the situation with those people on that dock and the people going to Sandbar, and trying to control the North Sound, SafeHaven Point, which was under the control of the Port Authority.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, I guess from the report my question to the Director would be, monies totaling \$90,000 were paid to these two individuals. And the Auditor General has said there is no evidence of work having been done, and no report of any kind that has ever been filed. Can you state that these observances were inaccurate then?

Hon. W. McKeeva Bush, Leader of the Opposition:

Mr. Chairman, I don't know if that is a fair question, because the Director said earlier that, and correctly so, the reports were made to the Ministry. And the reports were made to the Ministry. That's what I keep complaining about. If the Auditor General had spoken to me—

The Chairman: I think, Mr. Bush, that the Port Director can answer that question.

Hon. W. McKeeva Bush, Leader of the Opposition:

He did answer it already though.

The Chairman: Okay. Well, I think we should give him that chance.

Mr. Paul Hurlston: Mr. Chairman, no report was made to the Port Authority. Whatever reports were made went to the Ministry.

Mr. Winston C. Connolly, Jr.: And also no reports were made to the Board, then? Even though the Board was asked to rehire, and, therefore, I would suspect want to see some evidence of where the money was being spent and what it was being spent for?

Mr. Paul Hurlston: That is correct.

The Chairman: Mr. Hurlston, you said that all reports would have gone to the Ministry. I mean, that implies in my mind that reports were made. Can you state categorically from your knowledge were any reports made to the Ministry?

Mr. Paul Hurlston: I can't say that reports were—

The Chairman: Okay.

Mr. Winston C. Connolly, Jr.: In terms of, I guess, how the situation stands now, then, Mr. Chairman, who has responsibility for hiring, firing, and accounting for work done at the Port today?

Mr. Paul Hurlston: I do.

Mr. Winston C. Connolly, Jr.: Do you still, then, have appropriate buffers . . . sorry, not still. Do you have appropriate buffers between you and Government at

this stage whereby Government can't dictate individuals for you to hire if you don't see proof, et cetera, of the work carried out?

I am trying to find out from an overall governance standpoint and responsibility standpoint.

Mr. Paul Hurlston: Mr. Chairman, like I said, I take instructions from the Board. And if it is the policy of the Board to put a new service in place, then I will have to follow that policy, for example. And if it involved employing people, well then, that's what it takes.

Mr. Winston C. Connolly, Jr.: So then, I guess, if I am reading that correctly (and correct me if I am wrong), the Ministry to Board/Board to you . . . but if that is the case, do you ever check to ensure that the people sent to you through the Board, or I guess the Board directing you to hire someone, that they are actually doing what they are hired . . . that you, as the Port, are paying them to do?

Mr. Paul Hurlston: Mr. Chairman, the Port Authority staff report directly to me, those that work in operations and security and cruise. If there is a special project, like what I considered this, and I was directed by the Ministry to employ two people, the Board knew about it, well, then, I follow those instructions.

Mr. Winston C. Connolly, Jr.: But you don't necessarily follow up on the work? You rely, then, on the Ministry and the Board to do so?

Mr. Paul Hurlston: Well, if they are not reporting to me, then I have no authority to instruct them what to do.

Mr. Winston C. Connolly, Jr.: In your opinion, then, who has the authority to instruct them?

Mr. Paul Hurlston: The Ministry, if they are reporting to them. Yes.

Mr. Winston C. Connolly, Jr.: But then you can see the Auditor General's point in that as the people's money, somebody has to be held accountable. Somebody has to report what is being done for that money and why people are being paid. From your testimony, you are saying that it is not your responsibility because they were directed to you by the Ministry.

Mr. Paul Hurlston: That's how I saw that particular situation, yes.

Mr. Winston C. Connolly, Jr.: I just have one question for the Auditor General, then.

If you are looking at Government hierarchy and processes, I see what you stated in your report, is this an exception to what you see in other instances?

Or is this the norm that you see in other instances? And, depending on whether that answer is yes, or no, can you tell us what you understand best practice to be in these instances?

Mr. Alastair Swarbrick: We have a lot of examples of this. I am not saying it is the norm; but we have seen a lot of examples. We also hear, obviously, the Marl Road gossip about certain things, and we put that to one side. But we have seen other instances.

In terms of this, the reality is that the Port Authority is incurring the expenditure for this. The individuals are technically employed by the Port Authority, so, ultimately, they have to be accountable for the money and for the appointment of the individuals who were working for them. If you have that responsibility, you are accountable for the actions that they take, and their reporting, as such. Otherwise, accountability is completely confused. The reporting relationships are completely confused, and we have no idea where we are going.

Now, this is a small example. If it was taken to bigger ones you could have funds used and we would have no clear view about whether the services have been delivered because of the lack of clarity and confusion in the reporting lines.

Mr. Winston C. Connolly, Jr.: Thank you.

Hon. W. McKeeva Bush, Leader of the Opposition: Mr. Chairman, in this case, reports were made to the Ministry. And in this case the Board was alerted, the chairman was alerted to everything that was taking place. It was a special project. It wasn't a normal Port Authority operation, but one that the Port Authority was aware of and agreed upon.

Now, some people mightn't like it. Oh, they might not like it because the Minister shouldn't have any input. My Ministry made a decision and agreed on a decision and asked me to carry it out. Yes, I carry it out, if I think it is of good to the country. And if that is bad governance, well . . . I know the country benefited from it.

The Chairman: Thank you, sir.

Are there any other questions for these witnesses?

[No audible reply]

The Chairman: If there are no further questions, I would like to thank you for your testimony and your time, Mr. Hurlston, and the other gentlemen sitting these with you. You are excused from the meeting at this time. Thank you.

[Witnesses depart]

The Chairman: We are running a few minutes behind schedule.

I think at this point in time I would like to summon our next witness, who will be Julio Ramos, General Manager of the National Housing Development Trust (NHDT), and additional attendee, Leyda Nicholson-Makasare from the Ministry of Planning.

[Pause]

The Chairman: Welcome. Sit over here at the right hand side.

Mr. Ramos, thank you for taking time to be here with the Public Accounts Committee as we examine this report. For the record, would you speak into the microphone and state your name and your position for the record.

Mr. Julio Ramos, General Manager of the National Housing Development Trust: Good afternoon. Julio Ramos, General Manager of the National Housing Development Trust.

The Chairman: Thank you.

Members of the Committee, this witness is available for your questioning.

[Pause]

Mr. Winston C. Connolly, Jr.: Mr. Chairman, talking specifically to paragraphs 64 through 66 in terms of what occurred in paragraph 65, can the Director speak further to that and let the Committee know what occurred there in that instance, or in that note (paragraph 65)?

Mr. Julio Ramos: Mr. Chairman, paragraph 65 relates to the procurement?

Mr. Winston C. Connolly, Jr.: No, impairment losses.

Mr. Julio Ramos: Oh, sorry, impairment losses.

The Chairman: Mr. Ramos, before you actually get to answering that question, we do have a gentleman who has taken the place of Mrs. Leyda Nicholson-Makasare. Would you please state your name and position for the record?

Mr. Alan Jones, Chief Officer, Ministry of Planning, Lands, Agriculture, Housing and Infrastructure: Alan Jones, Chief Officer, Ministry of Planning, Lands, Agriculture, Housing and Infrastructure.

The Chairman: Thank you.

You may proceed, Mr. Ramos.

Mr. Julio Ramos: Mr. Chairman, that is correct. The issue in hand is in terms of recognising or recording the impairment losses.

Basically what stemmed this was one legal opinion that was obtained. And in that legal opinion it was assessed that the old Affordable Housing should be known as the Affordable Housing that was impaired.

At that point in time, when we did get that report, the Trust initiated a subsequent report in terms of infrastructure, or the sound structure of these, from an engineer. The issue raised . . . we were told to basically do a full write off of these assets. The Trust basically went ahead and did that a [inaudible] write off in terms of the redevelopment.

As of today, or basically as of 2012, all assets have been fully written off.

Mr. Winston C. Connolly, Jr.: How old were these assets?

Mr. Julio Ramos: At that time the old affordable houses, these are the ones constructed in 2004 initially. They were about seven years old.

Mr. Winston C. Connolly, Jr.: So . . . I guess . . . math wasn't my strong point, but isn't a house supposed to last a bit longer than that period of time?

Mr. Julio Ramos: Mr. Chairman, that is correct.

But it should be noted that in our carry on value, historically in our financials, these houses were being depreciated at 10-year life span. The issue wasn't raised as to why. The issue of basically recognising these assets was because we got a legal opinion.

Now, the issue in hand was basically not necessarily because they are impaired. Subsequent to that the engineer's report basically assessed along with the legal opinion of the potential liability. So, in essence, yes, you are correct. Our assets should be more, obviously, than 10 years; more than 7 years. But what is surprising with this legal opinion, you know, it takes a legal opinion to outline that these houses were not registered. They were not registered from day one, so why just pick it up seven years from now?

Mr. Winston C. Connolly, Jr.: I mean, other than what was reported, to me it is an obvious waste of the people's money. What, I guess, systems are there now to guard against this every being replicated again?

Mr. Julio Ramos: Mr. Chairman, obviously now there is, 1) procurement; and 2) we basically . . . the Lands and Survey obey Cayman Islands Government law, which is stringent in that you are supposed to construct according to the Building Code standards.

Hence, any building that is erected before it is actually accommodated, anyone should obtain, especially the National Housing, a certificate of occupancy. Previously these were not provided. So obviously now there are rules. We have to follow the laws and comply with them.

Apart from that, the procurement in itself that is basically the next issue that you have there, and I will address that separate.

Mr. Winston C. Connolly, Jr.: I have some questions on that, but if you have something prepared, you can . . . I would ask through the Chairman that you go through it. Do you have a prepared statement on the issues at hand?

Mr. Julio Ramos: Yes, I do.

The Chairman: You are free to move ahead with that.

Mr. Julio Ramos: As I explained previously, as it relates to the impairment, they are all fully written off. However, it needs to be noted that the houses are not completely vacated. The reason being there is a social aspect head as well. You can't just because overnight you are going to get a report saying that you have to . . . these houses are impaired, recognise them as a loss, demolish them. It is not that simple. The Trust is currently being appointed now a new Board and it is something that they are going to have to address.

To date, we currently have 41 houses of the close to approximately 100 that were previously constructed in 2004 that are still occupied. The Trust is going to need assistance from central government in having to address these issues as to what are we going to do with these individuals. There are two sets of clients—the lease-to-own, who we have a commitment by law; and a straight lease. So it is not something that we are dealing with stocks, bonds, or anything like that. We are dealing with families here. And having to relocate them, or having to take them out of these houses to correct a past mistake, would involve not just a Trust position, but both central government's position in it.

As it relates to the procurement . . . should I continue?

The Chairman: I do have a quick question for you on this. I mean, I hear what you are saying about the social aspect of this. But this report definitely says clearly to us that they are unfit for habitation.

Mr. Julio Ramos: That is correct.

The Chairman: Is there any risk to the National Housing Development Trust as a result of financial or other risks to the Trust for allowing people to remain in

homes that they have constructed that are unfit for habitation?

Mr. Julio Ramos: It is a high risk, Mr. Chairman. It is a very high risk.

The issue here is not necessarily in terms of recognising the loss, but of basically trying to assess the risk in itself and having to address that risk.

The Chairman: How many people are we talking about? How many of these homes remain occupied (I don't remember if you said it).

Mr. Julio Ramos: Yes, Mr. Chairman, approximately 41. We are basically demolishing them as they become vacant. It was more than that but we transitioned a few of the clients, basically good-standing clients, into the new houses. There are some individuals who have moved on. Some have abandoned the houses.

A clear directive needs to be given as to how the Trust should approach these individuals because we cannot just basically kick them out and tell them they are not safe. But these individuals are going to start crying out for rights as well. It is not their fault that they were basically put in these unsafe houses.

The Chairman: But isn't that the responsibility of your Board of Trustees who need to . . . are really charged with governance?

Mr. Julio Ramos: That is correct. It is the responsibility. But, you know, unfortunately, every Board, and everyone is charged as they come on . . . they inherit these things, these problems. However, no one has stepped up to the plate in saying, *Well, we're going to approach this; this is a solution. This would actually resolve that matter in hand and we can move these individuals temporarily and fix the problem.* Someone needs to basically step up to that plate.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, is he saying that this is the responsibility of the Board of the National Housing Development Trust?

Has that Board started any work? Or has it been fully constituted now?

Mr. Julio Ramos: Mr. Chairman, we are currently being appointed a new Board. I have not met them as yet. It will be communicated to me. I just got a confirmation that it has been appointed.

Previously the old Board tackled it in that we dealt with half of these clients. That's why I said a select of individuals who are in good standing were relocated to the new houses to address that issue. Previously we had close to a hundred, now there only remain 41 houses.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, then, that creates yet another problem because anyone who is not in good standing is basically penalised by being put in an unsafe or kept in an unsafe environment.

Mr. Julio Ramos: Mr. Chairman, that is correct. They are basically penalised on that. However, it should be noted that it is not because of the house being impaired that they were not in good standing as well. We always focus on that they share responsibility. When you apply to any facility in terms of housing anywhere, you need to be in good standing to be considered. Unfortunately it is unfair for these individuals that they are in this impaired house and it needs to be addressed.

Sorry, if you don't mind, Mr. Chairman, what transpired previously is when these houses were constructed they were not allocated at that time because of the wake of Hurricane Ivan. The Trust was then basically forced to allocate these houses to individuals to basically address the housing need of individuals. Hence, the approach that some went in under a mortgage/lease-to-own and some went in under a straight lease. So the Trust was never even given the opportunity to fully assess this individual to put qualified individuals there.

It was a rushed process in that individuals were placed in these houses with no COs [certificate of occupancies], hence the problem.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, I guess this is a prime example of knee-jerk reactions to events and unintended consequences, because when the process breaks down you don't know what you will end up with going forward. And in spite of humanitarian efforts, I think from what I am hearing from Mr. Ramos and what I am seeing here this should have always been a temporary approach, and not something that was going to be viewed as long term.

There were also issues raised under the procurement side. Were you at the National Housing Development Trust at the time of the procurement and the eventual choosing of the . . . I can't remember how many contractors there were . . .

Mr. Julio Ramos: Mr. Chairman, I was. However, in terms of my post, I was only limited to certain opinions, per se. I was initially hired as an accountant. Of course, we had a senior accountant who departed, and then I was put into the position. Then we had a departure of general manager, and then I was thrown into that position as well.

The procurement practice itself as to selecting the small contractors, I was not involved in that initial stage.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, I wasn't asking . . . sorry, I wasn't pointing a finger; I was just

trying to see if he could talk directly as to how the procurement was carried out. And also, if that was the case then, what is the case now, and what has changed since this report, if any.

Mr. Julio Ramos: Mr. Chairman, yes, I can elaborate on that.

The procurement practice in itself, the Trust was given directive to have more of a small contractor approach, multiple contracts with the intention to stimulate and to give work to small local contractors. This practice had been for the East End Development, the West Bay Development, and also up to the Windsor Park Development, which takes us up until 2011.

The Trust, of course from directives that had [inaudible] to the fact that in order to help local contractors with work they were going to distribute them. In terms of assessing how these were done in terms of contracts, the Trust undertook services of a quantity surveyor and got higher and lower bids across the market and met them half way. Not necessarily to set small contractors up to fail. So from a cost standpoint a full analysis was given. A quantity surveyor report was provided. However, as we were faced with this procurement, per se, which they are entitled to actually criticise us on in saying that if we had gone with a larger contractor we would have a cost savings, which is correct.

In an effort to basically rebut all this, we were criticised that we broke the contracts into multiple contracts to bypass the CTC process. We sought some advice (this was after this report) and the CTC could not comment on it because we were not within the threshold. However, they did advise us to get further counsel, or further advice, or further approval from Cabinet because we did sway away. We didn't even consult with them previously. The Trust provided a business case report to Cabinet and it was approved. We have now received (and we received this report in December 2012) to basically continue under this approach up until 2015. This was vetted by the UK, as a matter of fact.

So, in terms of your question what approach was taken, it was the same approach. We did analyse and we got revised figures in terms of the pricing of material, labour (we did do a survey on that for each project, sorry, for the last two projects), and we did present a business case that outlines the benefits of small contractor versus [inaudible] contractor, and approval was given up until 2015.

Mr. Winston C. Connolly, Jr.: With the same contractors that did the original project?

Mr. Julio Ramos: Okay. Ah, Mr. Chairman, I should elaborate that in this report it was outlined that we had 41 contractors. No . . . in all . . . what we did . . . we advertised for local contractors to be considered to be approved contractors. It was an exercise in that we

analysed them, there was a grading system, years of experience, recommendations, their credit worthiness in terms as contractors. They had a grade and they needed to qualify. To date we have approximately about 70 to 75 contractors.

In an effort to share the work around, we try to put emphasis on contractors for their respective districts (so not to say that we had favourites, but it would be shared around). For example, in terms of Bodden Town, the majority of the contractors there were Bodden Towners.

Hon. W. McKeeva Bush, Leader of the Opposition:

I understand from what you are saying that the way contractors were put together was an effort to give work to the smaller contractor. So there was not a matter that there was not procurement control, because they had to bid. Nobody just up and gave them and said, *see here, see here, see here*. I am asking you the question. They had to make a bid to be able to get a house to build. Am I correct?

Mr. Julio Ramos: Mr. Chairman, that is not correct.

Based on the quantity survey that we received the prices were already set. What we call the bid for the contractors to apply was to be qualified. So no one was constructing the house on a more favourable value. It was a set price across the board. Basically, a one bedroom was a set price; a two bedroom was a set price and a three bedroom. And this was how all the houses were constructed.

The issue in terms of procurement that has been raised here is that we could have received better savings if we had approached a larger contractor. So, in essence, in terms of conflict of interest or other issues at hand, this is basically more . . . they are more addressed in that we could have gotten value for money elsewhere if we had gone with one contractor or a set of contractors that would have done this for less. However, our business case report mainly aimed at stimulating our local economy and providing work for our local workforce and our local contractors.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, I think from what I read in the procurement section, in 66, they were talking about it not going out to Central Tenders [Committee] because the project was broken down on an individual house basis for less than the \$250,000 threshold.

The Auditor General is here. Can he confirm that, or speak to other issues that I may have missed in the procurement paragraph?

Mr. Alastair Swarbrick: Mr. Chairman, I can confirm what the honourable Member said. Our point wasn't on value for money, *per se*, although I can probably concur with what Mr. Ramos said that you would probably get, potentially, better value for money on assessment, on a straight cost basis. Obviously there

is another aspect about this and when government policy sets out issues around a social economic development, *et cetera*, that can be the case.

I suppose our point, in terms of this, is that overall we are talking about the procurement of \$4.2 million on housing. And the basis on which they undertook that procurement is a novel basis which is not particularly prescribed in the regulations to be undertaken. And the overall value was well over the \$250,000 threshold for CTC approval. My view is that they should have engaged CTC about the procurement process and, because of the value of the contract as well, because of the novel nature of the procurement process.

Also, subsequent to our report they did take some actions around getting a directive around the policy, around social and economic development and trying to encourage other smaller contractors. But that was not in place at the time of this actual initial procurement that we are talking about at this stage.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, I will defer to someone else, unless no one else has anything to say. I have some questions on page 30, now, of the report.

Mr. Joseph X. Hew: Mr. Chairman, I just wanted to quickly go back to the . . . Mr. Ramos, you said that there were almost 100 homes built, and now we're down to 41 homes still inhabited. We have moved on some of those tenants. Some were straightforward lease; some were lease-to-own. Those that we have moved on, or that we have re-assigned homes to, how have they been reassigned? Those that were a lease went back to a lease? Those that were lease-to-own went back to lease-to-own?

Mr. Julio Ramos: Mr. Chairman, I will elaborate on the first batch that was assigned. The batch for the Windsor Park, unfortunately we had to accommodate the straight lease-to-own clients as their houses were already demolished in terms of redevelopment. Why we redevelop, obviously because of the potential risk.

The total 16 lease-to-own clients were relocated on a lease-to-own basis on the new house. They basically inherited this in that, obviously the house was demolished, but they came in with their commitment as well as their back-up arrears. So they were paying that. The remaining seven houses were allocated on that straight lease, some for clients that returned on the lease and others for new clients who qualified.

The Trust is basically faced . . . we have hundreds of applications and we assess them on a needs be basis in that we assess their condition, their income levels. So we have a vigorous exercise in that we assess these individuals and they need to qualify first before they can actually get considered for a house.

The ones in West Bay, we took the same approach in that we relocated only the good standing lease-to-own clients from the old housing site into the new housing site, the reason being that we did not want to adopt or inherit the same (should I say?) bad habits of not paying. The remaining ones, the Trust basically took the stand that an opportunity should be given to new clients and they have been leased out on that basis.

Obviously we could not—even if we wanted to—relocate all of the old West Bay housing site to the new housing site. And if we did, we would have been faced with more or less built up arrears, bad debts and having to address those issues.

Mr. Joseph X. Hew: Mr. Ramos, those that are on a straight lease basis, was there any mechanisms put in place that if they had . . . if they displayed the ability to maintain their lease over two years, three years, whatever, that we could move those into a lease-to-own? Were there any qualifications for that?

Mr. Julio Ramos: Mr. Chairman, individuals were basically allocated based on their qualifying criteria. Discussions were had in terms of making them be adopted into a similar programme, however, it was never passed as a policy. In the last leg of the last administration it was requested. A business case report was provided, however, it was not finalised.

Discussions were had along the line that if you are a good standing client why not be given the opportunity to pay down your house and eventually own it. However, it was not finalised. This is something that I basically have on top of the agenda for the new Board to address.

Mr. Joseph X. Hew: Thank you, Mr. Ramos.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, director's fees. Can Mr. Ramos describe for me just how this works in terms of who gets appointed as a director and what they actually do at four meetings a month? And can you just give me a gloss of this because other than me trying to find new employment I would like to just understand how this is sorted out, or how this is set out.

Mr. Julio Ramos: Mr. Chairman, the National Trust Housing Development Board is basically managed by a board of directors, and the directors were appointed by Cabinet. As administrators we are only communicated and told these are your new directors which are now being faced with running the Trust in terms of giving guidance as to the way forward for the Trust.

In respect to your question in terms of what transpired at meetings, obviously we are talking about the increase. In 2011 (I think in February), the directors basically, by way of resolution, increased their fees. The Trust acknowledged that obviously there are

no minutes that record the rationale behind it, only the resolution.

When asked from an administrative standpoint, they are basically saying time-spent fee to be reimbursed for their time at multiple meetings. We acknowledge that, you know, at the end of the day was it illegal? Well, the Registered Articles of the Association give them that power. However, it is not interpreted down to "directors' fees" it is called "out of pocket expenses." And this has all been reported as directors' fees from the inception. That is something, as well, that needs to be addressed by the incoming Board.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, how many directors are we talking about? And what is the overall tab for the Government and the people of the Cayman Islands?

Mr. Julio Ramos: At some point in time, in 2010 I think, there were about eight to ten directors. Then it was reduced to seven, then six; and in the last leg of 2012/13 there only remained four.

Cost-wise, significant increase in terms that for the 2009 period, 2009/10, you had about \$2,800 in terms of directors' fees. Then you had approximately 117 all of a sudden—

Hon. W. McKeever Bush, Leader of the Opposition: Can—

The Chairman: Can you repeat that for us?

Hon. W. McKeever Bush, Leader of the Opposition: The amounts you were just saying.

Mr. Julio Ramos: The amounts in terms of director's fees?

Hon. W. McKeever Bush, Leader of the Opposition: Yes.

The Chairman: Yes.

Mr. Julio Ramos: It increased significantly in terms of comparing previous periods. Obviously with a new Board being appointed in 2009/10, 2008/09 and 2010, it was basically to give for the further development of the new Board and meeting and you see a big increase of approximately \$2,800 around the 2008/09 period, then in 2009/10 in the range of \$100,000; and in the 2011/12 \$100,000; and then in the 2012/13 it reduced to \$69,000. I am just giving you the high—

Hon. W. McKeever Bush, Leader of the Opposition: Can I ask . . . that is total, or per person you are talking about?

Mr. Julio Ramos: Mr. Chairman, that is total accumulated.

Hon. W. McKeeva Bush, Leader of the Opposition: So what was the payment for an individual director?

Mr. Julio Ramos: Individual director . . . in the last leg or prior to the increase?

Hon. W. McKeeva Bush, Leader of the Opposition: The total increase that we are paying up until now.

Mr. Julio Ramos: Okay.

The Chairman was receiving in the last leg \$800 per meeting, and the Deputy Chairman was receiving \$400 per meeting. Other directors were receiving \$300 per meeting.

Hon. W. McKeeva Bush, Leader of the Opposition: And the . . . well, it depends on the amount of work they had, therefore the amount of meetings.

Mr. Julio Ramos: Okay.

The meetings around directorship, around tenders building committee, HR, these are what we call committee meetings. The committee meetings were the HR, the finance, the building committee meeting and we had the main Board meeting.

Hon. W. McKeeva Bush, Leader of the Opposition: So there were . . . see if I understand, Mr. Chairman. A Board member also sat on those committees.

Mr. Julio Ramos: Mr. Chairman, that is correct.

Hon. W. McKeeva Bush, Leader of the Opposition: So he could be at four meetings per month.

Mr. Julio Ramos: Mr. Chairman, some Board members. Obviously the individuals who had the skill set in construction would have sat in the CTC, but they would not have sat in the finance. Individuals who were basically with a finance background and property management would have sat on the GGHAM meeting, finance meeting. And individuals who were professionals would have sat—

Hon. W. McKeeva Bush, Leader of the Opposition: So they weren't necessarily on all three or four committees?

Mr. Julio Ramos: A few of them did sit on two or three committees as well.

Hon. W. McKeeva Bush, Leader of the Opposition: So an individual Board member could be getting \$600 if he sat on two committees.

Mr. Julio Ramos: Mr. Chairman, that is correct. Well, it would have been more with the increase as well. So double that.

So if you had an individual . . . an ordinary director who attended three to four meetings, obviously you multiply that . . . it's not \$300, it would be more than that. And if you had two or three meetings per week . . . you had at some point in time a chairman getting \$4,000, \$2,000 per month with some other directors, ordinary directors, not necessarily deputy.

Hon. W. McKeeva Bush, Leader of the Opposition: There were a lot of meetings you are saying, in order for them to get that kind of money.

Mr. Julio Ramos: Mr. Chairman, that is correct. That is what these high costs are attributed to—multiple meetings.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, I still struggle to see the justification of even the fees before, versus the ones that were increased in that . . . I guess . . . yes, we have people with expertise. Yes, we have people that are carrying out a job. But is the practice of having a Board of directors, paying them this amount of money more economical than going out to the private sector from time to time to get things done? I mean, what are you doing that many times a week? I used to be a lawyer. I think these are higher than those fees—

Hon. W. McKeeva Bush, Leader of the Opposition: No, no. Come on.

Mr. Winston C. Connolly, Jr.: —that I used to charge.

Not the QCs. I was never that high up.

But I guess I am struggling to find a reason, or the reason, and maybe you can tell me through the Chairman, just what was the justification of having these directors in place—up to eight at one point in time—what they were doing for that money, and now, post this report? What will the recommendations to the Board be as to, (a) to how many directors; (b) what their functions are; and (c) the cost per hour or per meeting that they are doing?

Mr. Julio Ramos: Mr. Chairman, I have asked the question and in response to that is basically time spent fee in that you have individuals from different professions and the explanation given to me was that they really put in a lot of time into the Trust in terms of seeing that the projects are run properly, giving guidance in terms of the project development, giving oversight in terms of the GGHAM for which was actually cancelled as well.

Unfortunately, as explained previously, these were all things that were necessarily passed by way of resolution, but not necessarily justified.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, so if we are talking value for money and paying for expertise services for people that are going to sit down in a room, come up with a plan, build some houses that are going to last for seven years, be demolished and we then increase their pay because of . . . stellar service?

Mr. Julio Ramos: Mr. Chairman, bear in mind that the Board that did come in with this increase so that they come in with these fees, those houses were already built in 2004. This Board was initially passed with dealing with the new houses. And I am to deal with the old issues, per se. So not necessarily that they were the ones that constructed or steered the work of the construction of the old affordable houses.

Hon. W. McKeeva Bush, Leader of the Opposition: What . . . Mr. Chairman, maybe you who have been out in the private sector, and the Member just questioning . . . what kind of payment do various board members get per meeting?

The Chairman: Mr. Bush, I think it varies quite widely, depending on the nature of the entity and the . . . most generally it's the nature of the entity on what they do pay.

Mr. Winston C. Connolly, Jr.: And the expertise that's involved.

So you have a range, probably anywhere from \$50 per hour to \$800 per hour. But you are talking about, you know . . . I guess it's apples and oranges you are talking about. If you are considering what I used to do as a director on multi-billion-dollar hedge funds—

Hon. W. McKeeva Bush, Leader of the Opposition: I mean, you wouldn't . . . no. But from your knowledge of other ordinary business, can you hazard a guess?

Mr. Winston C. Connolly, Jr.: I don't . . . the businesses that I am accustomed to have full-time directors that you would be—

Hon. W. McKeeva Bush, Leader of the Opposition: Oh, I know about them.

Mr. Winston C. Connolly, Jr.: —you wouldn't come on as an ad hoc type of director and get paid by the hour.

Hon. W. McKeeva Bush, Leader of the Opposition: The Chairman knows about them too.

The Chairman: Who me? The only directorships I ever served on were those for government. It was \$100 per meeting.

Hon. W. McKeeva Bush, Leader of the Opposition: Not government.

Mr. Alastair Swarbrick: Mr. Chairman, maybe I can provide some practical context in terms of this question. In terms of the Cayman Islands, the public sector, there is a huge variety in terms of fees, expenses that are paid to members and directors of boards from, for example, directors on the HSA and Cayman Airways receive nothing, apart from expenses for attending, to the NHDT, which is one of the highest, and probably CIMA which is the highest, I think. But you know there is a huge variety.

The Chairman: It just strikes me from what I have seen and heard throughout there is wide disparity and amongst various government organisations and statutory authorities and government corporations in regard to payments to directors and trustees.

Mr. Ramos, I do have a couple of questions for you. The overpayment of the \$18,000 to directors, was any attempt made to collect these, recover these from the directors?

Mr. Julio Ramos: Mr. Chairman, yes, an attempt was made. Notification was given, and, of course, we needed to get legal advice, obviously, in terms of having to do so. That was basically somewhat put on hold because we would have to argue (1) could they have increased it? One is attributed to an operational error. (2) The way around in terms of could they have approved it? And it is basically for us to actually address these issues we are going to need guidance from our respective Ministry, as well as in terms of incoming directors. We did attempt. Notification was given, only to be faced with a letter as well from their respective attorney.

The Chairman: But effectively you have collected nothing back.

Mr. Julio Ramos: That is correct.

Mr. Joseph X. Hew: Mr. Chairman, in that same vein, who was responsible for approving and vetting these payments?

Mr. Julio Ramos: Mr. Chairman, at that time it was the previous general manager. If I can just elaborate on it, based on the resolution that was passed was not necessarily consistent with what was communicated, instructed, to the one individual processing the request. Nevertheless, it needed to be approved.

The Chairman: Are these . . . were there payments made to people who are still members of the Board?

Mr. Julio Ramos: Could you repeat the question?

The Chairman: Yes. These overpayments . . . are the people who received these overpayments still members of the NHDT Board?

Mr. Julio Ramos: No, Mr. Chairman. They are no longer. There was the previous chairman and deputy chairman. They are no longer active since October 2011.

The Chairman: Management of those accounts receivables. A 45 per cent rate of recovery just didn't strike me as sustainable for the Trust in the amount of bad debts that the Trust is assuming . . . having to sustain as a result of its activities. Is management taking any steps to rectify this situation to ensure that amounts that are properly owed to the Trust are able to be realised and converted into cash for the Trust?

Mr. Julio Ramos: Mr. Chairman, yes. There has been some improvement on that.

Bear in mind that the receivables identified here relate to the old Affordable Housing Scheme—the same ones that are impaired; the same ones that do not have COs, obviously the same houses that we cannot necessarily reach out and basically enforce.

The Trust, basically, as it relates to the new houses has the relevant lease agreements which are enforceable, obviously because these are houses that have the relevant COs and are fit for occupancy. In relation to the old houses in terms of their debt, we basically, as identified earlier, transferred the good-standing individuals. So, obviously they are still paying their arrears . . . I mean, they are not paying their arrears, they still maintaining their commitment. They have receivables there for other individuals who are just basically delinquent. Some of them are actually trying to make every effort. What is the likelihood of it? I doubt it. However, full recognition or write-off of these assets would have to be made as we demolish these houses as well.

So obviously this one in high receivables runs along the same lines as the impairment. Previously it wasn't written off until the stages of redevelopment and now that we are demolishing these houses and trying to have a way forward with these approaches we are going to have to do a write-off on these old houses as well.

Capt. A. Eugene Ebanks: Mr. Chairman, Mr. Ramos said earlier that the homes were being depreciated over seven or ten years. Would that be the true reflection of the depreciation for all the homes, including the new ones that are built?

Mr. Julio Ramos: No, that is not a true reflection.

The rationale as to why it was done since 2004 on a ten-year limit . . . I still haven't received a confirmation on it as to why it was done that way.

However, the new houses are not depreciated on that same method. I think we were depreciating them at . . . I would have to re-check, but I think at a 50-year term limit.

Capt. A. Eugene Ebanks: I am glad to hear that because the new homes that they are building now are solid concrete homes. I just couldn't see how that could be justified to depreciate them over such a short period of time.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, maybe this is . . . I wanted to direct this to the Auditor General. In preparing this report, and documenting these findings, can you identify who is supposed to be ultimately responsible for (I just have to watch my words here) this situation? I will leave it at that.

Mr. Alastair Swarbrick: Mr. Chairman, I think I will refer you to three reports that we issued on this—well, my predecessor actually issued on this—in 2004, or actually in 2005 on the National Housing Development Trust and the significant issues with the original . . . the building and procurement of these homes back in the original schemes back in 2004 where we brought out significant issues around their procurement, the design and quality of the build, et cetera, at that time. And it all relates back to that time.

They are available, and we can send you copies of that if you'd like. They are on our website. But they were in relation to a former housing minister's directions around this. Actually, only one of those reports was only made public last year. Or was it earlier this year? Late last year. So, there were significant issues, huge issues around this which was previously reported on.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, so the reports never saw the light of day until last year?

Mr. Alastair Swarbrick: Well, that's not quite true. Copies had been leaked out to the press. But one of them never made the light of day because two were released by the former Governor, Mr. Stuart Jack, and one was under the old House rules regarding release of Auditor General's reports. It was issued to the House in 2005, but it was never considered by PAC until 2012. So we technically were not allowed to release it until then.

Mr. Winston C. Connolly, Jr.: Good governance.

Mr. Chairman, I guess from my view of this, this can't continue in terms of process, fees to directors, the 41 units being kept open, et cetera.

I would like to direct this question to Mr. Ramos: What are your recommendations going to be to a new Board as to how to deal with this situation? And also, have you considered whether or not this should be handled in an entirely different manner? Because

as someone who is not familiar with this process, or the players involved (other than what I have read over the years in the newspaper), it seems to me that this has been a catastrophic failure since inception. But that is just me looking at the surface. You, having lived this . . . what are you going to recommend to the new Board, other than they shouldn't get paid the sort of fees they are getting paid?

Mr. Julio Ramos: Mr. Chairman, I have emphasised before, the Trust basically needs a governance policy, in that the Ministry knows its role, the directors know their role, and management knows its role. And accountability as well, to go along with that governance report.

It is very discouraging to know that . . . as you said, I lived it, being there where you are only limited to certain opinions, per se. You put it out, *Well, how am I going to go about telling these directors you are not coming here with these increased fees?* Obviously, the increased fees in itself was an issue that was raised. The overpayment flagged it, reported it to audit. With a new Board being appointed, it is something that was one of the first things that I actually told them, *You all need to address this issue of directors' fees. How is it going to be justified? Obviously if you are coming in as a new Board, how are you going to justify that?* It was not acted upon.

Obviously, what made it worse is that I had multiple meetings as well. Were they justified? They needed to be kept abreast as to what transpired previously and what is going on now. I can only encourage the new Board that is coming on. I will give you all my brief, and I will give you all my updates as to where we were, where we are coming from, this is the true financial position. Thank God the Trust is basically at the point where we have had our audits up until 2012. We just need signatures on them. And we pass them. Obviously if you pass an audit, what does that tell the stakeholder? The information is reliable. However, the controls need to be addressed.

The controls in that, who is charged with doing this. I am going to touch on the segregation issues as well. We basically at our level were visited. We have amended all of the policies and procedures to address these issues. The issues mentioned here . . . the Auditor General is there. Ask him if they were repeated in the 2011/12 audit. We are now conducting our 2012/13.

I guess some of it panned out in that I don't even want to sign an engagement letter, considering I don't have a Board. But at the end of the day, I believe in due process. So whoever is coming on board, they need to be kept abreast as to where we are at. Yes, it happened in the past; we need to address it and not let these same issues be raised again.

I can basically brag on the fact that since I got it the issues have not been repeated, apart from the receivables, until when we actually get rid of those

houses and know how to approach and deal with these individuals that will be cleared up. The procurement is a case/case. A business case as to what is better for the country, what's better in terms of savings has been addressed. We got it ready. That issue, of course, is not going to be repeated.

And, yes, do I personally believe that if we had gone out to the contractor . . . yes, savings. But, you know, it all goes down that it's a debatable issue. When you spend this money is it really going back to the tables of families? Those issues are something that, you know, were previously addressed.

Going forward in terms of the new Board, all of these issues are basically we are going to emphasise on them. All audits will be presented, these were issued raised, these are the ones cleared. Obviously if they are cleared it's because we addressed them, we have the relevant policies and procedures, and this is the way forward. Now we are basically, and the Ministry is blessing us as to what's their approach. What is practical? What do we have left in our cash? What can we achieve? And what commitment is the Government going to come in?

Obviously, you know, it's like with any administration and directors, they need to clean the mess that was left behind. Yes, from my standpoint I can basically emphasise that in terms of operation we know what needs to be done. The question is not necessarily the operation, per se; the question is basically what decision needs to be made at what level, what is the main objective? And if these are all laid out in terms of a business plan as well, and also you have a proper governance policy, you know whose role it is, who's responsible and who is tasked with it.

Is it doable? Yes it is.

The Chairman: Mr. Jones?

Mr. Alan Jones: Mr. Chairman, I just wanted to just jump in there a few minutes, with the caveat that my ministry has only had control, or responsibility, for this subject since the election. I did want to touch on a couple of things, just by way of emphasis. Firstly, my Ministry has been actively engaged with Mr. Ramos since we took over responsibility. I think we have all seen the report. We understand there are issues. Mr. Ramos, I think, has spoken with great candor today in terms of the issues that he has faced.

One thing that I would like to stress and bring out a little bit more forcibly is that in many ways he was thrown into a very difficult situation. Much of it was inherited and he has done his level best. From my discussions with him, I can sense this. He has done his level best within the authority that he has, bearing in mind that the Board is ultimately responsible for the decisions taken. He has done whatever he can to address the situations.

Those discussions with the Ministry are ongoing. They will continue. I can speak on behalf of my

Minister and the Ministry as a whole that in consultation with Mr. Ramos and with the new Board we will do whatever we can to ensure that we get things on a level footing. We are considering all options at this point in time as to, as Mr. Connolly said, whether or not we need to adopt a completely new approach. I can't speak to that any further at this point because it is still part of the discussions with the Minister and will be forming part of a Cabinet paper in due course.

But I can assure the Committee that in conjunction with Mr. Ramos and the Board we will be doing everything we can to ensure that the Auditor General does not have need to write such a report again.

The Chairman: Do Members have any further questions of these two witnesses?

Mr. Connolly?

Mr. Winston C. Connolly, Jr.: Thank you, Mr. Chairman.

Again to the Auditor General (and I also have one more for Mr. Ramos), in terms of all the reports that you have done, all the items highlighted, how many recommendations did you make and how many were taken on board?

Mr. Alastair Swarbrick: I believe, historically, we have made a number of recommendations over the time. I think you would find the frustration in my office is the fact that a lot of those are not taken forward.

I feel that we have seen a change in the last year or so in terms of the response from certain senior officials and others. For example, the evidence provided by Mr. Manderson regarding procurement yesterday addressed some of the issues that we reported on a couple of years ago regarding procurement, and that they are making further steps to move that forward.

I am hopeful that we get more action and I have to say that the recommendation that we make might not be the right ones, not necessarily every time. But as long as they address the issues and take forward what they see as the most pragmatic and appropriate action in line with what is considered good practice, we are content from that perspective. But we do see the reality is that a lot of the recommendations that we have made over the years have not been actioned.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, would it be fair to say, ignored? Would it be fair to say that they have been ignored?

Mr. Alastair Swarbrick: I will be diplomatic and say that people had other priorities.

Mr. Winston C. Connolly, Jr.: Diplomacy is a good thing sometimes.

Mr. Chairman, I guess this is following on from the Deputy Governor's response yesterday. I think that, for the record and looking over some of his statement, we should I guess . . . I don't know if we make recommendations, but it seems to me that it was a recommendation that went further than procurement from the Auditor General. That was also in terms of large capital projects and how that was carried out.

In this instance we see the necessity for not just a procurement body, but something further than that; something that can handle these capital projects. Because, again, not being in the construction industry or anything else, just being a layman and looking at how you would seek to get value for money, get the best results for the people's money, that some sort of oversight body like that, that has expertise that you don't pay for by the hour, is going to be more economical and better practice for Government.

Mr. Chairman, my final question for the day, I promise, sir, that this is the end for me, even though on this point I could probably stay a bit longer.

The Chairman: We do have another witness to do.

Mr. Winston C. Connolly, Jr.: I understand that. But we don't get paid by the hour, Mr. Chairman, so it doesn't count.

[Laughter]

Mr. Winston C. Connolly, Jr.: Mr. Ramos, in terms of any recommendations that you have thought about, have discussed, et cetera, have those recommendations been presented to Cabinet?

Mr. Julio Ramos: Mr. Chairman, my recommendations are basically made to the Board, not directly to Cabinet. Everything previously needed to be sent via a Board. If I even needed to speak to the Minister, it needed to be done via a Board. Recommendations were given. Approaches were basically, most, if not all, taken at Board levels.

Mr. Winston C. Connolly, Jr.: Sorry, I lied, Mr. Chairman, because that brings up another question.

Do you know whether or not the Board took any of this to Cabinet? Because if the Cabinet appointed the Boards, then presumably they would be answerable . . . the Board would be answerable to Cabinet. Cabinet either allows or disallows this type of activity to continue. And if they are not aware, I would think (and, again, I am new to this gig) . . . I would think that there should be some reporting procedure if you knew that information wasn't getting to the decision-makers through either the Ministry to Cabinet that should be occurring because the one thing that appears very obvious to me is that if it is in the Board's

best interest for this to continue, it is also in their best interest to stop the information flow right there.

There needs to be, again, someone who is ultimately accountable and responsible, because it is the people's money. And if that information isn't getting there, then it needs to, because then Cabinet needs to be on the hook for this sort of behaviour and has to answer to the people.

Mr. Julio Ramos: Mr. Chairman, ideally it should be any directives or recommendations, policies, per se, management gives their input, Board then communicates to Ministry, Ministry then in turn to Cabinet. Ideally it should be like that.

From experience, I can basically count on my hand in terms of how many policy papers I saw. Most, if not most, instructions were basically given to me at Board level. Hence, the need for a governance policy. If there is a governance policy that gives me the right to question and say, *Well, I am now in receipt of this. Are all stakeholders aware of this?*

From experience, I have seen where we had to do a Cabinet paper, Treasury was involved, Finance was involved. And that's how it should be. I can only recommend that we have a governance policy, per se, not to say that the Board creates this policy. But all input is sought at different levels and we can only . . . I would only task basically the Board to reach out to the Ministry that this is something that needs to be acted on.

The Chairman: if there are no further questions, then, gentlemen, thank you very much for your testimony. It has been very enlightening. You are excused.

[Witnesses depart]

The Chairman: I would like to go ahead and call our final witness for the afternoon, Mrs. Lizzette Yearwood, the CEO of the Health Services Authority.

[Pause]

The Chairman: I would like to apologise to you and your team for the wait that you have had to endure. I apologise that it has taken so long for us to get to you. You are the final witnesses of the evening, and I think Members are getting fairly tired, so hopefully we can get this wrapped up fairly quickly.

For the record, would you speak into the microphone and tell us your name and your position, and those of the other two guests to your left.

Ms. Lizzette Yearwood, Chief Executive Officer, Health Services Authority: My name is Lizzette Yearwood. I am the Chief Executive Officer of the Health Services Authority. With me on my left is Ms. Heather Boothe, the Chief Financial Officer, and Mr.

Matthew Tibbetts, the Chief Financial Officer designate.

The Chairman: Thank you.

Members of the Committee, the witnesses are open for your questioning.

[Pause]

The Chairman: Ms. Yearwood, if I could begin the questioning, the Auditor General reports that on his audit for the year ending 30 June 2011, for the first time since he has been auditing your accounts he has been able to give a qualified opinion, whereas in all prior years there was a disclaimer of opinion—a very marked improvement. I would congratulate you and your finance team for achieving that.

Nevertheless, I think it ought to be the goal of every authority and every statutory government entity to have an unqualified opinion, if that is at all possible. What are your goals, what are your plans to moving towards achieving that goal and addressing the issues raised by the Auditor General in his report?

Ms. Lizzette Yearwood: Mr. Chairman, the qualified opinion actually was achieved through a very focused effort from both a Board and management position to improve our internal controls. One of the things that we did was the Board formed an audit committee and from that we formed an internal audit department. We are working really, really hard trying to ensure that we continue the efforts. We have a number of initiatives that we are now also discussing with our current Board in regard to additional resources to really take us this final leg.

One of the management points that we have is for inventory. We are in the process of implementing a pharmacy software programme that is going to automate the inventory. Our pharmacy actually comprises 60 per cent of our inventory, so we feel that this will significantly help us in managing that aspect. Then we will take on the second phase in 2014/15 for the remaining inventory.

We are also concentrating efforts in regard to revenue capture. We are in the process of putting in place a revenue reconciliation officer that will be responsible for reviewing charges on a daily basis, almost on a real time basis, and working very closely with our internal team in order to make sure that we have revenue completeness. So we will be looking at revenue completeness.

Having also our internal auditor really helps in that regard in that we can have feedback from our internal auditor in regard to the weaknesses that she has identifying on a regular basis so that we can be proactive in correcting those issues before we have the external audit.

So we have been working consistently in all of these weakness areas. We anticipate that we will

probably have a qualified opinion again for 2011/12 and 2012/13. But with God's help, and with the help of the current Board and all of the people who are really dedicated to this purpose, we are really aiming for a clean opinion in 2013/14.

The Chairman: Okay. I think that's very noble, because I have been familiar with some of the issues over the years and the inability to get audits complete to be able to form an opinion on the statements of the Health Services Authority.

Accounts receivable. It seems, historically, a perennial problem for the Authority. Why is this so? Why is the Authority not able to collect the amounts due to it for services rendered?

Ms. Lizzette Yearwood: I wish I had an easy solution to that. But the answer, really, is quite clear. It is one simple problem: We have a national mandate that we have to provide care for all persons in the Cayman Islands regardless of their ability or willingness to pay. As a result, we have quite a significant portion of bad debt on our books.

The team has been working very, very assiduously in order to try to approach that. We know that there is no one silver bullet that is going to resolve everything. But we have tried to look at different ways of carving up that problem in order to improve our collections. We just need to have the support of the Government in order to limit, you know, some of the practices that we have.

What we have done right now is to reduce the number of persons who are coming in for elective procedures. Persons that were coming in before for surgery that isn't necessary to be had right now and then . . . what we are doing is working with them in order to put in place a payment plan so that they can pay up-front on procedures that they are going to have done.

However, we still have a problem when it comes to emergency care. Obviously we cannot turn away people who are coming into the hospital for emergency services because some of these are actually life and death situations. We also have a number of issues in regard to visitors coming to the Island, visitors who don't have health insurance. They come in and they have various health crises and we have to take care of them, at least in order to stabilise them so that we can send them overseas.

So it is something that has been a problem over the years, and we are continuously working to see how we can reduce the amount of bad debt at the hospital.

The Chairman: Okay.

I hear and understand more clearly the reasons for it. But is there an issue with the timing of the recognition of those bad debts? It strikes me, from what you describe, that probably a fair number of them you can determine from the outset a reasonable

estimate of whether you are going to collect that debt or not, or whether this is something . . . is an issue the timing of the recognition of the bad debts?

Ms. Lizzette Yearwood: In the past, Mr. Chairman, we have had significant problems in regard to the timing. However, we have in place now a real time adjudication system, which is to help us with the reconciliation of those debts so that the persons, up front, will be able to know exactly how much they are responsible for at the time of service.

The Chairman: Does your Board actually approve the write offs or the provisions?

Ms. Lizzette Yearwood: Yes. Our Board is the only entity that can approve write offs. But this is not done on an annual basis. What we do is we try to exhaust absolutely every effort in order to collect these amounts.

We have a process where we actually send our debts to the credit bureau, the National Credit Bureau, and we exhaust every possible effort to try to collect those sums of money. We are in the process of discussing using a second collection agency so that we can try to maximise that effort.

The Chairman: Okay, thank you.

And just as a matter of curiosity, how successful are your efforts? I mean, are you able to collect large sums of money by using these collection bureaus or agencies?

Ms. Lizzette Yearwood: Mr. Chairman, the credit bureau has not really yielded much more than what we are able to do ourselves, because by the time we send it to the collection bureau, we have really exhausted quite a few avenues already to collect.

It, unfortunately, has not yielded a whole amount. That's the reason why we're looking at a second agency, because we believe that perhaps the current agency is a little bit under resourced because there are some debts that we forwarded to them that they haven't had an opportunity to look at as yet. So we believe that expanding the number of people working on those we will be able to focus on a more timely manner and maximise the probability of getting those debts paid.

The Chairman: Thank you.
Members?

Mr. Winston C. Connolly, Jr.: Mr. Chairman, in the report by the Auditor General there was some indication that retired agency employees are still getting their medical paid for. Have you now been able to give some indication as to what that figure is going to cost over the next 10 to 15 years?

Ms. Lizzette Yearwood: Mr. Chairman, that was actually . . . what we did was we put in place an interim policy to deal with an issue that kind of occurred without any warning.

Prior to us taking on the responsibility for the health benefit for the retirees, that was a benefit that was paid through the Portfolio of the Civil Service. We didn't know that that policy . . . if there was a policy change, we didn't know that anything had changed until one of our retirees came back and said we no longer get that health benefit.

So we met with our Board and discussed this. We have had continuous communication with the Portfolio of the Civil Service, because I don't think that a policy decision has actually been formalised as yet. I know that it was something that is probably not an easy policy decision to arrive at because we have a number of situations. We have some employees who were probably vested with government before we became an Authority. Then we have some employees who have a vested benefit between the HSA and the government department. And then we have some employees who have been with us for 10 years now that we have been in being for 10 years.

Obviously we didn't want our retirees to go out without a health benefit so the Board made an interim policy to continue that benefit for those individuals who had just retired at the current level that had been provided by the Portfolio of the Civil Service. But, secondly, in recognising that it wasn't going to be a sustainable situation for us to continue the current level of health benefit forever for these employees, plus more employees that were coming into the organisation, a policy was then made (in, I believe, November 2010) that any employee that was hired with us after that date in time would not have the health benefit forever and ever until, you know, the person dies. We would continue as the law requires that that health benefit would be put in place for three months after the individual retires. But we would, of course, have to continue that benefit for the current employees that were hired prior to that date in hopes, then that we will come to some sort of policy decision at Government level that would then inform us as to how we should go ahead to forecast that amount for the future.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, just something you raised earlier, you talked about the mandates to ensure that people who have emergency situations, even though they can't pay they receive assistance and treatment. In terms of the overseas patients, do you have any reciprocal country arrangements that if Caymanians are abroad in emergency situations they be treated?

Ms. Lizzette Yearwood: No. We don't have any reciprocal arrangements, per se, in place. But I think as part of the WHO mandate, anybody who has a life and death emergency, that is, an immediate emergency

that affects their breathing, or cardiac functioning, they would be cared for just to keep them alive, just to stabilise them until some sort of coverage was ascertained from their insurance. But no, there are no reciprocal arrangements. And I don't think anybody would entertain any such arrangement, to be quite honest.

The Chairman: Are you finished, Mr. Connolly?

[No audible reply]

The Chairman: Ms. Yearwood, thank you very much for your testimony this evening. You are excused from this Committee at this time.

This will also conclude our meeting for this day. Thank you all for bearing up under the marathon session. Hopefully tomorrow morning . . . I think we meet again at 9:30 for the final report we will consider. Hopefully that will take us up to about lunchtime.

Thank you once again. I look forward to seeing you tomorrow morning at 9:30

At 4:15 pm Public Accounts Committee stood adjourned.



Legislative Assembly of the Cayman Islands

THE STANDING PUBLIC ACCOUNTS COMMITTEE

MINUTES

Meeting held *with witnesses*
Friday, 27th September 2013
9:00am

Minutes and verbatim transcript of the meeting of the Standing Public Accounts Committee held in the Chamber of the Legislative Assembly Building, Grand Cayman on Friday, 27th September 2013 at 9:00am.

Present:

Mr Roy McTaggart, MLA – Chairman
Mr Winston Connolly, MLA – Member
Mr Joseph Hew, MLA – Member
Capt Eugene Ebanks, MLA – Member
Ms LeSanneo McLaughlin – Clerk of the Public Accounts Committee

Absent:

Hon McKeeva Bush, MLA – Member

In Attendance:

Mr Alastair Swarbrick, Auditor General – Office of the Auditor General
Mr Garnet Harrison, Deputy Auditor General – Office of the Auditor General
Mr Martin Ruben, Audit Principal of Performance Auditing – Office of the Auditor General
Mr Patrick Smith, Financial Audit Manager – Office of the Auditor General

Mrs Sonia McLaughlin, Deputy Financial Secretary/Chief Officer – Ministry of Finance & Economic Development
Mrs Debra Welcome, Accountant General – Treasury Department
Mrs Gloria Myles, Deputy Accountant General – Treasury Department

1. Reference

In accordance with Standing Order 77(4) witnesses were invited to appear before the Committee to discuss various issues set out in the following Auditor General's Reports:

(a) Restoring Financial Accountability: A Time for Change? – June 2013

(b) Financial and Performance Reporting - Statutory Authorities and Government Companies for the year ending 30 June 2011

2. Meeting to Order

There being a quorum present (Standing Orders 77(2) refers), the Chairman called the meeting to order at 9:20am.

3. Welcome

The Chairman gave a brief welcome to the Members of the Public Accounts Committee and the staff of the Auditor General's Office, Treasury Department and the Ministry of Finance and commenced with a Prayer by Mr Winston Connolly.

4. Reports of the Auditor General: –

a) Restoring Financial Accountability: A Time for Change? – June 2013

The Auditor General made an opening statement on the above mentioned Report. The Chairman then invited witnesses into the Chamber and asked them to state their names, the persons attending with them if any and department or organization they were representing. The Chairman then opened the floor for opening statements from the witnesses preceded by questions from the Public Accounts Committee Members.

The following persons appeared in their named capacity as witness before the Committee:

- *Franz Manderson, Deputy Governor – Deputy Governor's Office*
- *Peter Gough, Advisor to the Deputy Governor*
- *Ken Jefferson, Financial Secretary – Ministry of Finance & Economic Development*
- *Sonia McLaughlin, Deputy Financial Secretary/ Chief Officer – Ministry of Finance & Economic Development*
- *Anne Owens, Senior Assistant Financial Secretary – Ministry of Finance & Economic Development*
- *Michael Nixon, Senior Assistant Financial Secretary – Ministry of Finance & Economic Development*

The statement addressed by the Financial Secretary, Ken Jefferson is attached.

b) Financial and Performance Reporting - Statutory Authorities and Government Companies for the year ending 30 June 2011

This was a continuation of witnesses for the Report from Thursday, 19th September 2013. The Chairman invited witnesses into the Chamber and asked them to state their names, the persons attending with them if any and department or organization they were representing. The Chairman then opened the floor for opening statements from the witnesses preceded by questions from the Public Accounts Committee Members.

The following persons appeared in their named capacity as witnesses before the Committee:

- *Faith Ebanks, Acting Managing Director – Public Service Pensions Board (PSPB)*
- *Barton Solomon, Senior Manager for Financial Reporting – Public Service Pensions Board (PSPB)*
- *Melanie Ebanks-Jackson, Director of Plan Administration – Public Service Pensions Board (PSPB)*

At the conclusion of meeting with the witnesses the Chairman thanked the Members of the Committee and the staff of the Audit Office, Treasury Department and the Ministry of Finance for attending.

5. Approval of Minutes

The minutes of Thursday, 11th July 2013 were deferred until the next meeting.

6. Any Other Business

There was no other business.

7. Adjournment

There being no other business the meeting was adjourned by the Chairman at 12:20pm.

OFFICIAL VERBATIM TRANSCRIPT
STANDING PUBLIC ACCOUNTS COMMITTEE
FRIDAY
27 SEPTEMBER 2013
9:00 AM

3rd Meeting held with witnesses

RESTORING FINANCIAL ACCOUNTABILITY: A TIME FOR CHANGE? (JUNE 2013)

**FINANCIAL AND PERFORMANCE REPORTING - STATUTORY AUTHORITIES AND
GOVERNMENT COMPANIES FOR THE YEAR ENDING 30 JUNE 2011**

Verbatim transcript of proceedings of the Standing Public Accounts Committee held in the Chamber of the Legislative Assembly Building on 27 September 2013 at 9:00 am. This meeting was recorded and aired on CIGTV.

Present: Mr Roy McTaggart, JP, MLA – Chairman
Mr Winston Connolly, MLA – Member
Mr Joseph Hew, MLA – Member
Hon McKeever Bush, MLA – Member
Capt Eugene Ebanks, MLA – Member
Ms LeSanneo McLaughlin – Clerk of the Public Accounts Committee

Absent: Hon McKeever Bush, MLA – Member

In Attendance: Mr Alastair Swarbrick – Auditor General, Office of the Auditor General
Mr Garnet Harrison – Deputy Auditor General, Office of the Auditor General
Mr Martin Ruben – Manager Audit Office, Office of the Auditor General
Mr Patrick Smith – Audit Principal, Performance Auditing, Office of the Auditor General
Mrs Sonia McLaughlin – Deputy Financial Secretary/Chief Officer, Ministry of Finance & Economic Development
Mrs Debra Welcome – Accountant General, Treasury Department
Mrs Gloria Myles – Deputy Accountant General, Treasury Department

The Chairman: Good morning everyone. I would like to call this meeting of the Public Accounts Committee to order.

I would like to ask Member Winston Connolly if he would lead us in an opening prayer.

PRAYER

Mr. Winston C. Connolly, Jr.: Thank you, Mr. Chairman.

Bow your heads, please.

Dear loving God, heavenly Father, I ask that you look down on us today and guide these proceedings and that in all things that we do, we do to your honour and glory and for the benefit of the people of the Cayman Islands. In Jesus' name we pray, amen.

The Chairman: I believe that with the three Members present we are quorate this morning, and we can proceed to do business. I don't think we have had apologies from anyone.

**“RESTORING FINANCIAL ACCOUNTABILITY: A
TIME FOR CHANGE?”**

The Chairman: This morning's agenda is to consider a report of the Auditor General entitled “Restoring Financial Accountability: A time for Change?” issued in June 2013.

Mr. Auditor General, welcome. I would ask if you have an opening statement you would like to make in relation to this report.

Mr. Alastair Swarbrick, Auditor General: Yes, Mr. Chairman, I do.

The Chairman: Please proceed.

Mr. Alastair Swarbrick: Thank you.

Mr. Chairman, Members of the Public Accounts Committee, ladies and gentlemen, thank you for the opportunity to provide some initial comments

on my report entitled "Restoring Financial Accountability: A time for Change?"

Over the last five years the Office of the Auditor General has reported extensively on the progress by government to implement the requirements of the Public Management and Finance Law (PMFL) with respect to the reporting of performance and financial results of government and its entities. Our reports have discussed problems with the implementation of the PMFL while identifying and reporting on significant issues that have shown a breakdown in accountability for the use of public resources by government since its introduction in 2004.

Whilst budgets continue to be set and authorised by the Legislative Assembly every year, reporting the achievement of the results against those budgets has never been effectively achieved in the nine years leading to a breakdown in accountability to the Legislative Assembly, the residents of the Cayman Islands and other international interests. Members of the Legislative Assembly have not received credible and timely financial reports for how government has used the resources entrusted to it, therefore undermining the basic principles of public financial management.

Back in December 2010, when I issued my first report as Auditor General, I indicated that in my opinion it was time to review whether all the provisions were in the PMFL financial framework were appropriate for the needs of the Cayman Island's Government in ensuring effective accountability. At the time I raised a number of questions that I thought Government needed to consider about the financial framework, including:

- whether the governance arrangements contained in the Public Management and Finance Law provided sufficient clarity about the roles and responsibilities of all relevant offices, including clear leadership for financial management and reporting across government and its entities;
- whether ministries and portfolios have the capacity to prepare individual ministry or portfolio IPSAS [International Public Sector Accounting Standards] compliant financial statements which provide effective current financial accountability, and, did they need to; and
- Are the output measures that are being reported on effectively reporting what a ministry or portfolio had delivered? Are they reporting on the key areas that are important to their stakeholders, including the outcomes that the programmes were designed to achieve and the service levels the government should be providing?

Whilst there has been progress to restore accountability over the last two years, there are still significant gaps in the accountability of government for its

use of resources. In particular, the audited consolidated position for the whole of government has never been publicly reported in nine years, leaving legislators and citizens with no reliable information on how government has generated and used significant public resources. Until financial reporting and broader performance reporting is effectively achieved across the public sector in line with the statutory timetables, accountability by the government for use of all its resources will not be achieved. There will also continue to be significant risks to the efficient, effective and appropriate use of those resources.

The results of the work we have been performing over the last nine years and outcomes from other reports prepared for Government have clearly indicated to me that there is a need to fundamentally review the financial framework that supports the principles in the Public Management and Finance Law and to consider what the framework should look like to enable sustainable financial and performance management, accountability and transparency for use of public resources and provide this in an economic and efficient manner for a jurisdiction the size of the Cayman Islands.

While my office continues to support the intent and principles behind the Public Management and Finance Law my experience over the last three years has reinforced and strengthened my initial reviews presented in December 2010, that the financial framework needs to be fundamentally changed and a revised model implemented.

I believe the evidence of the last nine years, where accountability has been effectively lost, demonstrates a need for this. Through implementing a revised framework I believe there are significant opportunities for the Government to enhance accountability and transparency to support more effectively the decision making, reduce the bureaucratic burden and generate efficiencies, achieve better results for use of public resources and ultimately increase public trust in Government.

Ultimately, it is up to the Government to review and consider what the framework should look like and ensure that it meets the needs of its stakeholders. This report provides my considered opinions on the actions that I believe Government should consider taking to deliver a more sustainable framework for the management of public resources.

These include:

- simplifying the framework by streamlining financial reporting;
- strengthening the controls used by management to ensure financial information is credible;
- simplifying the budget process;
- developing a proportionate performance reporting framework that focuses on results, not activities;

- restructure financial functions for providing the necessary leadership for the functioning of government, strengthening the capability, policies and processes used to account for the use of public funds and manage cash and use concepts, such as shared services to reduce the cost and complexity of the current framework;
- strengthen accountability by providing greater clarity around the roles of the chief officers and chief executive officers for fundamental administrative activities;
- strengthening internal audit, including the establishment of an Audit Committee;
- improving transparency of financial information by having more proactive disclosure of expenses in corporate reports; and
- improve financial systems used to support the financial management of public funds.

Since being appointed Auditor General, it is evident that restoring trust in Government and the public services is important to the people of the Cayman Islands. I believe that the recommendations made in this report would help Government to achieve that outcome.

Whilst the honourable Deputy Governor, in his response, does not completely agree with my opinions on these matters, I think this report provides an opportunity for a broad range of discussion and debate on the future financial framework to provide an outcome that is both sustainable and provides effective accountability to the citizens of the Cayman Islands.

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

Thank you.

The Chairman: Thank you, sir.

Do members have any questions of the Auditor General with regard to his report at this point?

Mr. Winston C. Connolly, Jr.: No, Mr. Chairman, not at this point.

The Chairman: Okay.

In that case, if the Committee would like to call its first witness, the Deputy Governor.

Good morning, Deputy Governor. For the record, would you state your name and your position, and also the same for the gentleman behind you?

The Deputy Governor, Hon. Franz I. Manderson: Good morning, Mr. Chairman, and Members. My name is Franz Manderson. I am the Deputy Governor and Head of the Civil Service.

With me is Mr. Peter Gough, from my office. He is my strategic advisor.

The Chairman: Thank you, sir.

Members of the Committee, the witnesses look forward to your questioning.

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, I also have a statement as well.

The Chairman: Oh, please . . . my apologies. I should have asked you about that first. Feel free to go ahead and make your statement.

The Deputy Governor, Hon. Franz I. Manderson: Thank you, Mr. Chairman, and good morning again.

First, I want to thank the Auditor General for his continuing attention to this most important subject. Parliamentary accountability is the cornerstone of a democracy, and I am fully supportive of the Auditor General and his department for his efforts to improve it. I think we have established a good working relationship and I want to assure the Auditor General that, while I have not agreed with everything he said here, I do respect his recommendations and will certainly carry out the recommendations that are accepted here today.

My responsibility is to ensure that chief officers perform well to carry out the policies of Cabinet, to deliver value for money for services, and to stay within the budget that has been allocated by the Legislative Assembly. As Head of the Civil Service I am focused on performance and accountability of the Civil Service. So my comments on this audit report have to be viewed in that context.

I support the vast majority of the recommendations in this report. However, there are some recommendations on accountability and responsibility that I would respectfully not agree with at this particular point. And I will explain my reasons in a few minutes.

It is my view that for any financial and performance government model to work successfully it needs active leadership, incentives to make it work, and sanctions for those persons who do not adhere to it. There are agencies of government that are complying, so it is not impossible to achieve what I just said. And I think the vast majority of government agencies are complying with the Law.

Over the last three years agencies have submitted their accounts to the Audit Office within the statutory deadline. The Auditor General has acknowledged this, and also that the quality of these accounts is improving. As Head of the Civil Service I have given this a priority in the performance agreements of all chief officers.

My job is to improve performance of the Civil Service. And I support the simplification of the Public Management and Finance Law, as long as it does not compromise my ability to manage the performance of chief officers. I need to retain a measurement regime

that has more than a financial component. I acknowledge the importance of the statutory reporting requirement. But equally important is management reporting. It is impossible to make sound decisions on a daily basis unless you have timely financial and performance information.

The Framework for Fiscal Responsibility has validated the financial principles which the PMFL is based on and, therefore, I would not support any change to weaken or undermine those principles. With regard to financial reporting and accountability, the Auditor General has proposed to make it easier to produce accounts and have fewer accounts to audit. However, this has to be balanced with the public accountability and transparency and the citizens' rights to know in detail not only what money we are spending on their behalf, but also what value the public is getting for their money.

When I carry out performance assessments with chief officers, not only do I want to know that they have not overspent their budget, but also that they have spent it on what this Assembly appropriated. I believe that information will be useful to Members. To put it in simple terms, if my wife sends me to the grocery store with a list and \$100 to spend, she wants to be satisfied that not only have I spent the \$100, but that I have spent the money on the things on the list. I think that level of reporting is what is required here.

I agree with making best use of back-office resources. Human resources and finance can be centralised where there are savings to be made. But it should not, again, undermine the accountability of chief officers. The recent rationalisation report produced by chief officers has made some recommendations in this regard. However, the report talks about shared services among the statutory authorities and government companies within the wider public sector, for which I have no influence. And before I say this, I must say that I agree with the recommendations made. However, the Government has embarked on a review of public authorities with a view to strengthening the governance arrangements between them and central government. I believe that this can go a long way in achieving some of the recommendations that the Auditor General has made.

The audit report refers to some public bodies not being able to produce financial accounts because of their size and capacity. Maybe the time has come for us to solve this problem, not only to share back-office resources, but to perhaps merge the small statutory authorities into one, or to bring them back into government. If they are not working in the way they have been set up, then it is time to make some tough decisions.

I do not agree with the suspension of inter-agency charging. It has reduced the accountability of the central agencies and has increased costs. Where goods and services are free they tend to be over used. And we have seen some examples of that. In

addition, we are not able to truly cost the services we provide as a significant portion of our operating costs are borne by central departments. For example, computer support and petrol and diesel are free to users. So there is no incentive to reduce these costs by reducing computer licences or reducing travel. Under the present arrangement it would be very difficult for me to compare the cost, for example, of the RCIP with any other country's police force because of the lack of inter-agency charging. So I am not getting the true picture and being able to compare apples to apples. The concept of inter-agency charging is a good one. If we are going to strive for better value for money for the citizens of this country we need to fully cost the services we provide. Otherwise we will have no real costs data to use for decision making. However, having said that, I do agree that we need to make it simpler if we are going to reintroduce inter-agency charging.

I respectfully do not agree with the Auditor General on the discontinuation of measures, service delivery and reporting. I agree that outputs from some ministries have not been written well and are too detailed and may have only a tentative link to outcomes. However, unless they are reported on there is no incentive to improve them, and we need to learn from our variances.

The Parliament appropriates funds on the output group basis that have measured quantity and quality indicators, therefore we should report on the same basis. I am encouraging all chief officers to review their outputs in light of the broad outcomes that have been established by the new Government. I firmly believe and agree that unless we start with measureable outcomes and report on them, we cannot demonstrate true parliamentary and citizenship accountability.

I agree with the Auditor General on the reintroduction of quality reporting. We now operate in a dynamic environment, and I will go as far as to suggest that we reintroduce monthly reporting on financial outputs. I have some concerns about the Auditor General's proposal for a leadership of the finance function. The Public Management and Finance Law has provided clear administrative responsibility to the Ministry of Finance officials and the Minister of Finance. The Minister of Finance has the constitutional responsibility for Finance, as set out in section 54(1)(b) of our Constitution. All the main responsibilities are covered in the Public Management and Finance Law Regulations Accounting Policy, et cetera, and all points to the Ministry of Finance.

I just want to say that I recognise my overall responsibility. But I think in this particular area the Constitution makes it very clear who has the leadership in the areas of Finance.

I do not agree with splitting the strategic and planning and budgeting function of Finance from the accounting and reporting function. This would lead to

inefficiencies, role clarity issues and could weaken accountability. I agree with the recommendation of the Auditor General regarding Internal Audit, and have now moved Internal Audit under the Portfolio of the Civil Service, which means they will ultimately report to my office.

I agree with all the recommendations made in the report about strengthening the central finance function and improving transparency for financial information and transactions. I think this is critical, and I certainly want to commend the Auditor General for his work in that area.

Personally, I am developing a website where I will post all of my travel and other details, thus following the lead of the Auditor General who published all his costs on his website as well. So I think, as Head of the Civil Service, I also have that responsibility and want to support the work he is doing in that area.

Finally, I do not agree with the combining of executive and entity expenditure. Although this may be convenient for accounting simplicity, it compromises the role clarity and decision-making and accountability issues between the Minister and the Chief Officer. That is something that I think we need to look at very carefully.

The decisions on executive expenditure, like transfer payments (for example, scholarships, poor relief, ex-gratia payments to seamen and ex-servicemen), is the responsibility of the Minister and not the chief officer. The chief officer is only responsible for the operation of the process that reflects the Minister's policy.

In conclusion, I want to thank you for the opportunity to explain my thoughts on the report, and once again commend the Auditor General and his team for an excellent report. I can assure the Committee that I will work with the Auditor General to simplify our procedures where necessary.

Thank you.

The Chairman: Thank you Deputy Governor.

Members of the Committee, the Deputy Governor is available for your questions.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, for the areas where the Deputy Governor agrees with the Auditor General, what plans are in place now to carry them through to fruition?

The Chairman: Go ahead, sir.

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, thank you.

I am now in the process of completing performance agreements for chief officers now that our budget is just about finalised. In the performance agreement there is a new section that I have inserted which requires chief officers to enforce recommendations that have been made by our oversight body. For

example, recommendations made by the Auditor General, the Complaints Commissioner and the Information Commissioner, Internal Audit, I will now be paying attention to all of those to make sure that those recommendations are taken forward by chief officers.

I think one of the areas that we must show improvement on is that . . . you know, we have developed so many reports, so many recommendations and they seem to sort of sit around for awhile and nothing really happens. My job is to make things happen in the Civil Service. And I think by holding chief officers accountable, putting this in their performance agreements, that they must now pay very close attention to the recommendations made by our oversight agencies, and know that their performance will be graded on how well they implement the recommendations here and to hold them accountable for that.

So that is something that I am doing immediately. In the long term I would need to work with the Chief Officer, Mrs. McLaughlin, the Financial Secretary and the Minister of Finance to ensure that these recommendations are viewed seriously and are properly addressed.

Mr. Winston C. Connolly, Jr.: Thank you, Deputy Governor.

The Chairman: Mr. Hew.

Mr. Joseph X. Hew: Thank you, Mr. Chairman.

Deputy Governor, on page 14 of the report, items 44 and 45 speak to the blurring of lines and the lack of accountability between the reports coming out from the chief officers to deal with the roles of the ministers and the officials in the administration of entity and executive transactions.

And then item 45 goes on to explain that, ". . . **there has never been any accountability for these transactions and balances since the introduction of the PMFL. In other words, for over eight years, government has not provided any audited information to the Legislature or the public relating to the actions taken and spending of public funds by the Governor in Cabinet.**"

Can you elaborate on that for me and perhaps explain and enlighten me a little bit on how that works?

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, I referred to some of these issues in my opening statement in terms of when we are talking about executive transactions and we refer to things like "transfer payments" where there seem to have been issues with role clarity and who is actually responsible for it.

For example, it is clear to me that when it comes to transfer payments those are payments made by ministers. But it is the responsibility of chief officers to ensure that there are good policies around

how those payments are made. For example, if the ministers decide that they want to give \$5 million to the seamen, it is important, then, for chief officers to develop a structure, a policy guidance, so that when those payments are being made there is proper accountability and transparency on how they are being made.

The Auditor General can correct me if I am wrong, but I think that is what he was alluding to in this particular area.

I would ask for some more clarification on 45 in terms of what he said had not been reported on since the introduction of the Public Management and Finance Law.

The Chairman: Auditor General?

Mr. Alastair Swarbrick: Mr. Chairman, in terms of what we are talking about here are things like coercive revenues are only reported in the EPS financial statements. The transfer payments, the expenditure on those is only reported through the entire public sector financial statements.

Other executive transactions, things like loans, all those issues, Crown land, which is an executive asset, they are only reported in the entire public sector financial statements; they are not included in the entity financial statements.

Mr. Joseph X. Hew: Mr. Chairman, through you.

So, Mr. Auditor General, your concern, as you put in here, is the lines could get blurred between . . . something could disappear in the . . .

Mr. Alastair Swarbrick: Technically there is no accountability for, for example, transfer payments, at this moment in time. For the nine years there is no actual effective accountability for those transactions at this time.

I think the blurred lines is about the roles and responsibilities and where people see their role and responsibility in terms of those transfer payments and how much authority they have in saying who gets what, et cetera, I think are some of the issues around that, and how much influence you can have in terms of exactly how that is worked out.

Mr. Joseph X. Hew: If I understand correctly then, Mr. Auditor General, your point is that no enterprise-wide financial statements have been produced. So those transfer payments and executive transactions have not been made public in any way, or accounted for?

Mr. Alastair Swarbrick: No. I would say we have received submissions of the entire public sector, and we have completed one of those at this point in time, the 2010/11 (issued an audit report on, I should say, not an opinion). And 2011/12 we have nearly finished as well. And all the prior years should be finished rea-

sonably quickly. But none of those have been issued to the public domain at this stage.

I am talking before we have actually issued our reports to an extent on this, but in terms of the actual accountability through those reports at this time, it will be limited in terms of what opinion I can place on those financial statements.

So in light of that, we are going through a process of trying to do some performance audits and compliance audits on some of those key areas of which we see risk in terms of things like transfer payments and suchlike.

The Chairman: Members?

Mr. Winston C. Connolly, Jr.: Mr. Chairman, in terms of the transfer payments, is the Auditor General then suggesting that there should be some criteria in terms of how those payments are distributed? Who is going to be responsible, say, . . . in my mind, here is an example. If a minister wants to give money to a private school to save them from going bankrupt and no one advises that minister about the consequences, or the cost, or unintended consequences . . . what happens now is that that minister can basically write a blank cheque for anything he wants in that transfer payment. Is that what you are kind of alluding to?

Mr. Alastair Swarbrick: Thank you, Mr. Chairman.

I thank you for that question. (Potentially!)

That is a difficult example. I think an easier example, from my perspective, to talk about is things like scholarships, or social benefits and that suchlike, in which I would expect to see clear criteria set out for what, or who, is entitled to receive such benefits or payments. You know, questions like that one there, is there are questions of a broader context in terms of economic impact and various other things, for which I would expect ministers to receive strong policy advice about whether that was a good thing before he made a decision in light of that. So, that is slightly different, maybe, in that sense.

But in terms of most transfer payments are about a transfer to an individual and you are not getting anything in return for it, at the end of the day, such as social benefits, specifically. There is . . . you don't get any outcome from that . . . well, there is no service provided back. So I would expect clear criteria about how those are distributed.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, to the Deputy Governor.

In terms of the review of the current PMFL, what is the status quo? Are we doing a comprehensive critical review? And, in findings, would you be in support of drastically changing that PMFL to come back to a more centralised system of accountability? Or are you saying that it only needs tweaking?

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, we have done, and there have been a number of reviews of the Law by various individuals. A group of chief officers has looked at the finance law and made some recommendations. We have had two persons come in from overseas and make recommendations.

When I took over as Deputy Governor, instead of commissioning another review I asked a team of chief officers, led by Ms. Sonia McLaughlin, to look at all of the reviews that had been done and to then look at what recommendations we felt needed to be made and to put them all together into one document. I am very pleased to say that that has now been done. I have the report now from Ms. McLaughlin, which I would then want (after speaking with her and the Financial Secretary) to decide a way forward as to how we do that along with the new Minister of Finance.

So a lot of work has been done. Do we need a wholesale review? Probably not. We just need to enforce or put in place what has already been recommended. I think if we do that things will get a lot better, bearing in mind also some of the recommendations that the Auditor General has made in terms of simplification and different things that we do better in terms of quarterly reporting and different things like that.

So I wouldn't say a tweak; but a more substantial change would be made if we accepted all of the recommendations that have been made and take them forward. I am very, very hesitant to accept changes to the law which would deal with centralisation. I am very worried about how that is going to affect the accountability of chief officers and my ability to hold them accountable for the performance of their budgets.

Mr. Winston C. Connolly, Jr.: Just one more question, Mr. Chairman.

Deputy Governor, in your mind is this the most efficient system that we can use for financial accountability in the government?

The Deputy Governor, Hon. Franz I. Manderson: Thank you, Mr. Chairman.

To answer the Member's question, no. I don't think this is the most efficient system that we have. I am not sure where we would look to find the most efficient system.

Can we get better? Absolutely.

Will we get better? Absolutely!

But I agree that we need to do better in this area. We have made a lot of improvements, if you think about where we were just three years ago. We have made significant improvements in terms of submission of our financial statements, the quality. So it is a work in progress. But I think we have all accepted that the system could be better, and we will now make

the necessary changes to get it to where we need it to be.

Mr. Winston C. Connolly, Jr.: Deputy Governor, I hear you, and I appreciate your answer. And I appreciate the sentiment that we are going to get it to where it needs to be. But what I haven't seen is the plan of where it is that we need to be.

I mean, just trying to see, I guess what you have identified as those parts . . . I have seen your response, and I appreciate that. But I guess I'm looking for a clear action plan of, *We are going to tackle XYZ and we hope that by tackling this we will end up with ABC*—you know, something more clear and direct.

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, I totally agree. That is what is required, and we are on our way to having that plan in terms of the review of the laws and the various recommendations that were made. That, in my opinion, was our very first, first step.

The next step is first for Mrs. McLaughlin and the Financial Secretary to sit with the Minister of Finance and make sure that he is on board with what is in that report, ensure that his vision for the Ministry, his vision for changes to the Public Management and Finance Law, are incorporated in whatever we are doing. He is the ultimate leader in this. Once that is done, we will then develop the plan that the Member is talking about, present that to Cabinet along with whatever recommendations are made and take the matter forward.

I know we are making baby steps; but I think we are on our way.

Mr. Winston C. Connolly, Jr.: Deputy Governor, I also note that the Auditor General had made some recommendations over three years ago, in addition to the ones done in June 2013. Can you confirm that we are looking at these recommendations in totality (i.e., the ones [made] three years ago, and the ones from this year) to try to achieve that full accountability for financial performance by the different government sectors?

The Deputy Governor, Hon. Franz I. Manderson: I can so confirm.

Mr. Winston C. Connolly, Jr.: Thank you, Deputy Governor.

Mr. Chairman, just one more question. In terms of how it operates now, and this is just an observation that I would ask you to give me clarification on, or otherwise.

Right now it appears that the chief officer and the chief financial officer for each ministry have the ultimate kind of decision making. It doesn't seem to go back to the Financial Secretary. And perhaps Ms.

McLaughlin, as it stands . . . is there some way . . . or am I correct in that observation, in that they don't report up to them and then through to you? It seems that the chief officer has the ultimate say and then they are answerable to you from a performance basis.

I don't understand where that breakage, in my mind, that the Auditor General, the Financial Secretary and others responsible for government finances . . . that that line of command, or that line of reporting, doesn't go through them as some sort of central accounting body or accounting responsibility body and then to you. How does that work now?

The Deputy Governor, Hon. Franz I. Manderson: Yes.

I mean, the Ministry of Finance is the central accounting body when it comes to them to be setting policies, plans, overall budgets, targets, different policies like that. But, at the end of the day, as you correctly said, it is the chief officers who are ultimately responsible for the budget that has been presented to them through their minister, through Cabinet to them. They are the ones that are financially responsible for their budgets.

They do not have to report to anyone else besides their minister to make sure that their minister is fully in the know as to how the operations of the ministry are being carried out in terms of financial management. Ultimately, they are then responsible to me in terms of their performance and how well they have managed their ministry's or portfolio's budget. But there is no relationship other than for guidance or advice that they would have back up to the Ministry of Finance.

Mr. Winston C. Connolly, Jr.: And I guess, just a carry on for that, is that the appearance is that everyone is running their own little fiefdom reporting in sometimes different timeframes, slightly different formats, et cetera. And if that is the case, then I think, going back to the Auditor General's report, that is why we need some sort of centralised management of those people that holds them collectively accountable to ensure that everything is happening at the same pace, being done in the same language, being done where someone is tracking that before it becomes an issue.

And that, in my mind, is what the review of the Public Management and Finance Law could kind of focus on, that cohesive output and where someone is being the kind of ringmaster, so to speak, to keep those things clicking on a very efficient and coordinated manner.

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, that is a good question.

The Ministry of Finance . . . for example, when we are looking at doing the year-end accounts . . . the Financial Secretary and I lead an oversight

group to ensure that that happens. All of the templates, standards, different systems, are developed by the Ministry of Finance and that is driven down to the various CFOs. So I wouldn't necessarily agree that some of the people are doing their own thing, so to speak, in that they are following guidance given to them by the Ministry of Finance. I think that is now working very well.

Was it working very well four years ago? Obviously not, because we were not doing what we should have done.

Is it working a lot better now? Absolutely.

And will it get better over time? Absolutely.

But I would want to emphasise that the Ministry of Finance does have that sort of overall oversight when it comes to making sure that the accounts are done in a sort of uniform way so that they can give it various templates and different systems to guide ministries. But I am sure the Financial Secretary and his team can expand on that a bit more.

Mr. Winston C. Connolly, Jr.: Just one question to the Auditor General.

You laid out a lot of areas, I guess, but particularly the five areas where you think that the change in financial management framework could lead to better accountability.

Having heard the testimony of the Deputy Governor, what, in your view, is critical to getting to, if not the ideal, a system that kind of works for the people of the Cayman Islands in terms of the accountability and the timeliness, et cetera of this. What are the critical issues in your mind that you think need to be addressed by the Deputy Governor and whoever is reviewing this?

Mr. Alastair Swarbrick: Mr. Chairman, that is a simple question.

I suppose there are a number of aspects in terms of what is critical. I think a fundamental aspect is ensuring that you have robust and timely, credible financial information on a monthly basis as a starting point. And that's the building block for ensuring that you can produce annual financial statements quickly, effectively, and which are credible and accurate.

I think fundamentally for effective financial management for decision makers, for the policy makers, Cabinet, chief officers, having that timely, credible financial information on a regular basis (i.e., monthly), is fundamental to enabling Government to make effective decisions and then be held accountable for those decisions at the year end, or on a quarterly basis. How you get there . . . well, we are going to have variance of opinions about how that is effective.

Are there ways to make the process more efficient and effective through, for example, shared services? As I talk about, I think there is a clear benefit to that, without diluting the effective roles and accountability of chief officers to achieve that. Those are

sort of key functions, the key areas that I see as being important.

Development of a financial framework is a process. It takes time. We have been looking at a report made by KPMG on outcome based budgeting in governments across the world. And we look at ones that are mature, which are New Zealand and Canada. And they have moved to an outcome based budgeting for the budget process, for example, which is focused on what is the actual impact of the money that has been spent by the government, after it has been authorised by the Legislative Assembly.

From my perspective, that is the ultimate aim. It has taken them 30 years to get to that position. It's not a slow process; but I think you can put the building blocks into that making that an efficient process, that is to manage the financial information so that it is done on a consistent basis and so that legislators and officials can make effective decisions and then be held accountable for them.

I don't know if I answered your question fully, but . . . there are so many aspects to this at the end of the day.

Mr. Winston C. Connolly, Jr.: I guess that is what I was asking in terms of the . . . if not the ideal, the direction that we should be trying to get to.

Mr. Alastair Swarbrick: I would just make one comment.

I think the Honourable Deputy Governor and I are looking for the same objective at the end of the day. It is just about . . . some of it is the detail about how we get there, and working through that. We have provided a view and an opinion here, which I think is a discussion point . . . not a discussion point, but a clear area to look at and consider how it is achieved.

As I said, I have reservations about outputs as the basis for budgeting. I see outputs as an important measure for managing performance, potentially, and other things. But whether that is the fundamental, or the end game in terms of budgeting, I am, you know . . . it's not a thing. But I think these are points for discussion, sort of looking at . . . the devil is in the detail about how to actually deliver this and make it streamlined, efficient and effective for Government and ultimately, I think, to make it efficient for legislators to approve the resources and ultimately hold Government accountable for use of those resources.

Mr. Winston C. Connolly, Jr.: Thank you.

The Chairman: Mr. Hew?

Mr. Joseph X. Hew: Mr. Chairman, I notice that the shared services came up in the Deputy Governor's comments. And it came out at the top of your recommendations a minute ago. But I am struggling with

this. What are the objectives of the shared services? Is it efficiency, cost savings or accountability?

Mr. Alastair Swarbrick: It is ultimately all of those goals at the end of the day.

If you ultimately break everything down into individual ministry departments, you get into silos where you have limited capacity, you have limited cover; you break down in the internal controls because there are not enough people who put segregation of duties in front of, for example, things like that. You can make things more efficient, potentially, by, for example, processing all the accounts payable transactions through one central accounts payable area, or accounts receivable.

That doesn't necessarily dilute the financial reporting or anything like that, as long as you have service level agreements about what expected standards would be required to deliver. So you can create efficiencies in terms of the number of people. You can create additional cover and expertise. And you can increase the robustness of the internal control environment so that you can be assured about the credibility of the information.

Ultimately it is easier to audit, but that should not be the ultimate objective (I have to say). It also makes the information more consistent, potentially, as well, about what is being reported in each ministry.

Mr. Joseph X. Hew: Thank you.

Mr. Chairman, through you to the Deputy Governor, we are talking about outputs. I just wanted to address something that has been tossed about in the public for quite awhile, and that is departments coming down to the end of the year and doing their best to use up their budget, not necessarily in the most efficient ways.

I draw on your example earlier, of your wife giving you \$100 to go to the grocery store with a list. And you are to spend that \$100 and get the items on the list. What are we doing to ensure that the departments take that \$100 and take advantage of the discounts and coupons and everything else and come back home with an extra \$10 in savings?

[Pause]

Mr. Joseph X. Hew: Sorry . . . Deputy Governor, and Mr. Chairman, just to make it clear . . . if I explained it . . . so we have always heard about authorities and departments coming down towards the end of the year and calling up a supplier saying, *I have an extra \$20,000* . . .

Okay.

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, yes I am aware of that practice. It is one of those things that is a practice of the past. Chief Officers and I have discussed that just before this

year's year end. We put a lot of emphasis on working with chief officers and heads of departments to ensure that that didn't happen.

There are provisions in the law at the moment to allow entities to carry forward their unused portion of the budget. We don't seem to have put a lot of emphasis on that at the moment, so it is almost a spend-it-or-you-lose-it, and then persons are worried that they will get held to their last year's actual, so they then try to spend.

That is a bad habit. And, like I said, is something that we are working to put to an end. It is all about accountability, first of all, me holding chief officers to account; chief officers holding their HoDs to account to ensure that they are spending the money on what they are supposed to spend it on, but also only spending it when it is absolutely necessary and ensuring value for money in everything that we do.

For example, we have a report, one of the reports that we had on cash management. That highlighted the issues that the Member is raising in terms of in April and May you will see a higher trend of spend, as opposed to in February or March. Again, that could indicate that people are doing that practice. So this year we spent a lot of time ensuring that that did not happen and for the year-end performance in that we came well under, in terms of supplies and consumables . . . which, again, is a credit to the work done by the Civil Service. I would believe that that did not happen this year. Or, if it did, it happened not in any significant way because there was a good under-spend in that area.

Mr. Joseph X. Hew: Thank you.

Mr. Chairman, I am glad to know that we are looking at that. I have to say that we should try to encourage . . . and I know that when it gets down to budget time (as it is now), there are always cuts and things. But I do believe that if we were to work closer with the heads of departments . . . and from the private sector I know that a lot of times heads of departments and agencies will work really hard at being efficient and make sacrifices to try and achieve, or try to have funds at the end of the year to be able to fund something that they think is good for the department or for the advancement of the department. And I believe that we should try and encourage that, that if people can work as efficiently as possible to come back in with a surplus at the end of the year that they can represent and say, *We cut here, and there, and there, because we need to add this added service, or we want to put these funds towards this infrastructure.* I don't think that's a bad thing and it should be encouraged.

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, I agree. We, right now, are not rewarding ministries or portfolios that under-spend. As a matter of fact, we are almost punishing them!

For example, where we saved . . . we came in \$12 million under budget in personnel costs. This year's budget will represent even less than that. So we . . . and the same may apply with supplies and consumables. I am not sure. But we need to . . . if we want a greater emphasis to be placed by chief officers, by HoDs in coming in under budget, there should be some incentive for them to do it, whether it is some type of savings sharing, or whatever it is, there needs to be some recognition that they have done a good job.

I mean, if you think that any organisation that had the financial performance that we did as a Civil Service, where we had a good surplus, where we saved significant resources, people would be rewarded. That's not happening in the Civil Service at the moment. We are still actually under a salary cut. So can you imagine, we had a huge surplus this year—we saved on personnel, we saved on supplies and consumables—the things that are under our control in terms of civil servants—those key areas we did exceptionally well on. But our salaries are still cut. So where is the incentive for us to continue to do the things that we are doing?

I couldn't agree more with the Member that there needs to be some type of incentive programme for us to continue to do what we are doing and not be punished at the end for doing it.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, the Public Management and Finance Law, when originally introduced, was based on the New Zealand model, from my understanding. New Zealand has opted to get rid of their PMFL, the way it was designed.

If we don't do a fundamental revision to enable the best framework possible for the management of public resources, in your view, how sustainable is what we are doing right now over the long haul?

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, I am aware that some of what we have introduced here was taken from the New Zealand model. I don't think we adopted the New Zealand model wholesale. But there are some aspects of what we have here that can be attributed to the New Zealand model.

I think what we have here is sustainable as long as we are willing to make the changes that are necessary to make it better. We cannot, under any circumstances, not accept that what the Auditor General has said, what other people have said who came in and reviewed this, that we cannot get better. We have to accept that and I think we are on our way to getting better. But a lot of the principles are sound. I like them. I think they promote all the good things about financial management in terms of accountability and transparency, ensuring value for money. So there are a lot of great things there.

But I do accept that changes need to be made. And, like everyone else in this room, I am sick and tired of hearing that we need to do it; we just need to get on with it! So, that is one of my major priorities this year, to get on with it and let's put this to rest once and for all.

Mr. Winston C. Connolly, Jr.: Thank you, Deputy Governor.

Mr. Chairman, I welcome that sentiment and look forward to the necessary revisions taking place in consultation with the Auditor General and all of the other stakeholders, including some open dialogue with industry as well, in terms of experts. We have a number of firms here in the big four and otherwise who have commented on our systems and I think with that type of expertise here and, in many cases, free expertise, we should try to come together with a comprehensive plan to address this because I think the ultimate beneficiaries will be the people of the Cayman Islands, whose money we are spending.

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, I totally agree.

I have said what needs to be done and we now just have to deliver on what we have said we are going to do. So the ball is in our court to make it happen.

The Chairman: Deputy Governor, one of the issues that I think has come out clear from the Auditor General's report, to me . . . he talks about the quality of the information that has been coming from various ministries, departments, and stuff, suggesting to me that there may be some performance issues within the Civil Service in regard to those charged with the financial oversight.

How are you dealing with these issues?

The Deputy Governor, Hon. Franz I. Manderson: Again, it comes down to the performance management system that we have. I have made it very clear to the persons who report to me, namely, the chief officers, that I am going to be paying attention to the work of their ministry in terms of the quality of their work, in terms of the recommendations or the various disclaimers or qualified opinions that we get from the Auditor General.

So I am going to hold them accountable. They need to then hold their CFOs accountable. If their CFOs are going to make them look bad, then they need to deal with it because . . . you know, I . . . It is easier for me. I grew up in a law enforcement background. All I know is about enforcing rules and enforcing laws and holding people accountable. So it is easy for me; I grew up doing it.

And I have just told chief officers that they have to do the same, because I don't know any other way of doing my job but to hold people accountable

and to ensure that you are doing what the law says you are supposed to do. So it is very easy for me to do those things, and it is important that chief officers do the same.

I must say I am not seeing cases where they haven't. The Auditor General has stated that the quality of the reports is improving. And I would want to think that what we have submitted this year is much better than what we submitted last year. I will be waiting to hear what he has to say once he has had a chance to look at those. But two years ago . . . I think what he was saying was that some of our reports were . . . I think the word he used was "abysmal," or something. If he uses that phrase today then there are going to be serious consequences for people, because it has to be.

The Chairman: From your standpoint as Head of the Civil Service, are you satisfied that the right people are in the right place to deliver the reporting and the quality reporting?

The Deputy Governor, Hon. Franz I. Manderson: In terms of chief officers, the persons who report to me, absolutely. I have great confidence in the work that they do. They then have to hold their chief financial officers to account.

We have done a lot to work with our CFOs who are all qualified CPAs. But, of course, we recognise that there needed to be training, or whatever. And we have done that through the Ministry of Finance. So, to answer your question, I am very satisfied in the work of chief officers. I think they now will have to hold their CFOs accountable. I don't personally know all of their abilities. They know that. But I think that the vast majority, the very, very vast majority of our CFOs get it right.

Can there be some improvement? Absolutely.

The Chairman: You touched briefly on an issue that I wanted to focus in on with you, on whether your CFOs and your financial controllers have the appropriate training in the IPSAS, and that would enable them to ensure that they have that knowledge and understand the requirements of IPSAS in terms of preparing the quality reports that the Auditor General is expecting from them.

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, I can't say with any degree of confidence how well they are trained to those international standards. I know the Auditor General puts on courses, and they go to other courses to keep up to date with their professional designations. But that would be more of a question for chief officers who are more familiar with the qualifications of their CFOs.

The Chairman: Mr. Auditor General, would you have a comment?

Mr. Alastair Swarbrick: I think, generally, there is variability from our perspective in terms of some of these issues. And it's not just about IPSAS, it's about understanding the clear role of what the CFO actually is, and some of the other responsibilities in terms of effective information for decision makers, and providing analysis and so forth and so on, and being a focal point for ensuring effective control of public resources as well. So there is some broader context.

But we see a variety, and there are some outliers from our perspective in terms of some of the issues that need to be addressed, and they are fairly clear when you look at our reports which ones they probably are.

The Chairman: Okay.
Mr. Connolly?

Mr. Winston C. Connolly, Jr.: Mr. Chairman, can the Deputy Governor say what the ramifications are for ineffectiveness in terms of the role of the CO and CFO, ultimately? And have those been communicated clearly to those parties?

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, thank you.

We do have a performance management system in place. The Public Service Management Law makes it very clear about persons having performance agreements and all those different mechanisms to know exactly what their jobs are. But it is also very clear that when there are issues of significant inadequate performance that we can take action.

So, if we have a particular civil servant who is constantly not performing their duties to the required standards, there are very clear sections in the law that we can deal with it. And have we done that in the past? Yes, we have. We are holding people to account. People are, unfortunately, being terminated from the Service.

People seem to think it doesn't happen. I get a report far too often on my desk that says, *I have to report to you that so-and-so has been terminated*. So it does happen. But I would hope it doesn't happen in relation to significant inadequate performance, but it does happen. But yes, there are good systems in place to ensure that if we have persons who are not performing their jobs that they can ultimately separate from the Service.

The Chairman: Other questions?
Mr. Hew?

Mr. Joseph X. Hew: Thank you, Mr. Chairman.

Deputy Governor, just out of curiosity, can you give us a quick update on the review and reimplementation of the IRIS system? I think you are phasing . . . I

think the previous software used would not be supported after November of this year.

The Deputy Governor, Hon. Franz I. Manderson: Mr. Chairman, I have very little information on that. I would defer that to the Chief Officer from Public Finance, or the Financial Secretary. I really don't have a lot of information on that.

The Chairman: Mr. Hew, we are going to be questioning them very shortly. May I suggest that we defer that question to when they take the witness stand?

Are there any other questions for the Deputy Governor?

[No audible reply]

The Chairman: Deputy Governor, thank you very much for your time this morning and for your testimony. We will excuse you at this time.

The Deputy Governor, Hon. Franz I. Manderson: Thank you so much, Mr. Chairman.

Mr. Chairman and Members, just in closing I think the debate here has been very useful. It certainly gave me the steer that I need so I understand what Members' concerns are. It is all about accountability, getting better, and improving the performance of our work. I just want to assure Members here that that is on the top of my agenda.

We have all heard about this particular area for far too long. A lot of the criticism is justified. But the ball is now in our court to ensure that this is . . . that the next time the Auditor General doesn't report on this, that this is a non-issue, and that he will report that there has been tremendous progress and that we are doing much better in this area. Time will tell.

But, again, thank you.

The Chairman: Thank you, sir.

[Deputy Governor departs]

The Chairman: I would like to summon our next witnesses, the Hon. Ken Jefferson, Financial Secretary; Mrs. Sonia McLaughlin, Chief Officer Ministry of Finance and Economic Development; Ms. Ann Owens, Senior Assistance Financial Secretary and Information Manager; and Mr. Michael Nixon, Senior Assistant Financial Secretary.

[Pause]

The Chairman: Ladies and gentlemen, welcome to the Public Accounts Committee. For the sake of order, can I ask you to please speak into the microphone and state your name and your position for the record?

Hon. Kenneth Jefferson, Financial Secretary: Thank you, Mr. Chairman. Kenneth Jefferson, Financial Secretary.

Mrs. Sonia McLaughlin, Deputy Financial Secretary, Chief Officer, Ministry of Finance and Economic Development: Sonia McLaughlin, Deputy Financial Secretary, Chief Officer, Ministry of Finance and Economic Development.

Mr. Michael Nixon, Senior Assistant Financial Secretary, Ministry of Finance and Economic Development: Michael Nixon, Senior Assistant Financial Secretary, Ministry of Finance and Economic Development.

Ms. Anne Owens, Senior Assistant Financial Secretary, Ministry of Finance and Economic Development: Good morning, Mr. Chairman and Members. Anne Owens, Senior Assistant Financial Secretary, Ministry of Finance and Economic Development.

The Chairman: Members of the Committee, these witnesses are now available for questioning.

Again, I apologise to Members this morning . . . if you have an opening statement, feel free to make it at this time.

Hon. Kenneth Jefferson: Thank you, Mr. Chairman. Yes, I do.

Mr. Chairman, and honourable Members of the Committee, I want to thank you for an opportunity to make an opening statement. I want to say at the very beginning that many of the comments that I will make in this statement have been touched upon by testimony given this morning. It also covers some of the comments and testimony given in the Committee's review of a previous report in respect of financial performance reporting by the statutory authorities. But I will, nonetheless, go ahead and make my statement.

Mr. Chairman, and honourable Members of the Committee, we are all aware that the Ministry of Finance plays a key, an integral, part in the Government's financial and accountability framework. Under Part VI of the Public Management and Finance Law the Ministry of Finance is directly responsible for the preparation of the government's budgets, preparing annual consolidated financial statements and establishing the government's accounting systems.

Mr. Chairman, and Members, although challenges continue to exist within the financial management and reporting regime of government, significant strides and achievements have been made. Full accrual accounting has been implemented, and, particularly in the last three years, the public sector financial statements have been completed within the statutory deadlines, and the quality of financial information therein and the supporting evidence provided for such financial information has improved due to the opera-

tion of an Oversight Review Committee (which the Honourable Deputy Governor mentioned, chaired by him; I am also a member of the committee; the chief officer in Finance is another member of the committee), and also by the enhanced efforts of chief financial officers within the public sector to produce more robust financial statements.

Mr. Chairman, upon the completion of the ongoing upgrade of the centralised accounting system, IRIS, the production of financial statements will become more efficient as the upgrade provides for easily stored and accessible financial results and improvement in user productivity.

Mr. Chairman and honourable Members, let me say that I agree wholeheartedly with the report's primary recommendation stated at paragraph 74, that there is a need for a comprehensive review of the regime put forward by the Public Management and Finance Law. Mr. Chairman, I am acutely aware that that statement perhaps conflicts with what the Honourable Deputy Governor has said. I don't think that there is anything wrong with conflict. Conflict arises from intelligent people having different opinions. So I think that is perfectly fine. I think there needs to be a discussion, a robust discussion, about the financial regime in the public service.

Mr. Chairman, notwithstanding my agreement with this primary recommendation, I do believe that the report does not give enough credit for or weight to the improvements and achievements that have occurred, particularly in the last three years. In the executive summary, Mr. Chairman, there is a portion of a sentence which reads, "**Whilst budgets have continued to be set and authorised by the Legislative Assembly every year, reporting the achievement of results against those budgets has never been effectively achieved in nine years . . .**" That is quite a profound statement, Mr. Chairman. And the public, when hearing that or reading that, will be naturally shocked!

In my view, Mr. Chairman, I believe that that is an unfair stance. And I do appreciate that the key points, or the key pivots, in this sentence revolve around those budgets and what is meant by "effectively."

Mr. Chairman, why do I say that this is an unfair stance? I have this view because the report does not elaborate upon the following facts: central government and agencies in the public sector entities have, for many fiscal years, had their individual financial statements audited and tabled in the Legislative Assembly. They may be qualified, there may be issues with timeliness of those, but they have been done. They have been audited. And they have been tabled.

The Public Sector Consolidated Financial Statements which are legally required for the fiscal years 2008/09 onward, have been completed and submitted to the Audit Office for examination. Hence,

the public sector consolidated financial statements for the years ended June 30, 2009, 2010, 2011, and 2012 have been completed and submitted to the Audit Office. And I understand, I know, Mr. Chairman, that the Audit Office is in the position to issue an opinion on 30 June 2011 statements. So individual agency accounts have been done, as I said, many of them qualified, but they have been audited and tabled here. The Consolidated Financial Statements, which combine the individual agencies in core government, along with those of the public sector, have also been done.

I am under no illusion, Mr. Chairman and honourable Members, that those consolidated accounts will not receive a clean and unqualified opinion. In fact, there is likely to be either a disclaimer of opinion . . . I have no doubt about that. But I think that the important point, Mr. Chairman, is that the public is aware that the consolidation of those accounts has actually been done.

Mr. Chairman, my comments are not meant to divert attention away from the report's valid concerns. They are not meant to be a diversion. But instead, Mr. Chairman, these comments are meant to highlight that a greater sense, in my view, a greater sense of balance was possible in the presentation of the report's findings. For the 2010/11, 2011/12 and 2012/13 fiscal years, all government agencies, statutory authorities and government companies have submitted their individual financial statements to the Audit Office by the 31st of August deadline specified in the Public Management and Finance Law.

The backlog of financial statements has been diminished and all government agencies and other public sector entities are now current with submissions of their financial statements.

Mr. Chairman, in accordance with section 29(2) of the Public Management and Finance Law, the Treasury Department is responsible for the preparation of the Annual Consolidated Entire Public Sector Financial Statements in accordance with International Public Sector Accounting Standards.

The 2008/09, 2009/10 Consolidated Financial Statements were submitted to the Audit Office on 11 February 2013 (fairly recently). The 2010/11 and 2011/12 Consolidated Financial Statements were submitted to the Audit Office by the statutory deadlines of 31 October 2011 and 31 October 2012, respectively. And, Mr. Chairman, the Treasury Department intends to meet the 31 October 2013 submission deadline of their 2012/13 Consolidated Financial Statements to the Audit Office.

Mr. Chairman and Members of the Committee, I have written copies of this statement and I can have that distributed later on. I am conscious of the fact that it is a fairly long opening statement. So I will attempt to speed up.

Mr. Chairman, there is obviously a concern about the quality of the financial statements. But, again, to add some balance, the Audit Office has re-

ported in its draft progress report entitled "Financial and Performance Reporting Progress update, September 2" that 68 per cent of all government agencies received either unqualified or qualified audit opinions on their 2011/12 financial statements. This is a slight improvement from 65 per cent for the 2010/11 fiscal year as reported by the Auditor General in his report entitled "Financial and Performance Reporting update, October 2012."

Mr. Chairman, as you and Committee members know, and certainly the Audit Office knows, unqualified opinions are clean opinions. These are issued when the information in the financial statements can be relied upon and the qualified opinions are where, in certain instances, portions of the financial statements can be relied upon. The Audit Office has completed the audit of the 2010/11 Consolidated Financial Statements and will likely issue a disclaimer of opinion, meaning that it cannot reach an opinion.

The disclaimer opinion is likely to be issued as a result of a lack of sufficient and appropriate evidence to support the value of fixed assets which was based on:

- outdated re-evaluation exercise;
- the omission of post-retirement healthcare obligations from the financial statements;
- limited representations were received from chief officers, which is a key piece of audit evidence, with regard to the fairness of the Consolidated Financial Statements;
- lack of integrity around the consolidation procedure, particularly the elimination of the inter-entity balances;
- lack of a government-wide system to collect and report related party transactions; and
- the inability of the Audit Office to substantiate opening balances for the 2010/11 Consolidated Statements as the 2008/09 and 2009/10 financial statements were submitted after the audit review of the 2010/11 financial statements.

Many of the reasons for the disclaimer can be regarded as technical matters and not fundamental integrity concerns. The audits of the 2008/09 and 2009/10 and 2011/12 Consolidated Financial Statements are ongoing by the Audit Office.

Mr. Chairman, I will make my written statement available to Committee members and the Audit Office. I have stopped at paragraph 19 of the witness statement, conscious of time. I don't think I will read every single paragraph thereafter.

Paragraphs 20 through 31 are concerned with the roles and responsibilities of chief officers. I think the Committee has a very clear understanding of the present regime, which is that within a ministry, portfolio or office, there are chief financial officers who report to chief officers; chief officers report to the Honourable Deputy Governor. The role of the Ministry of

Finance is, in the context of financial statements, to principally take the individual agencies' financial statements and consolidate them and present consolidated statements to the Audit Office for review and examination.

So, a lot of what I will distribute, Mr. Chairman, speaks to that role. And I won't read every single paragraph.

So, Mr. Chairman, I would summarise my position by saying that the Ministry of Finance is, I believe, committed to carrying out its role and responsibility as prescribed under the law. Some consideration ought to be given to modifying the current regime of IPSAS and their applicability to government. And there is nothing wrong with that, Mr. Chairman. It is perfectly permitted to modify to suit purposes and should not be regarded as fixing the rules to conveniently suit one's own purpose.

We are supportive of a review of the financial legislation, a comprehensive review. Mr. Chairman, as I said, I am acutely aware that, whereas the Honourable Deputy Governor perhaps didn't express a need for a comprehensive review, I think that does have a legitimate place in the discussion. And, if as a result of that discussion, the conclusion is reached that the system that we have now is perfectly fine and it needs some improvement, and not a wholesale review, then we would have reached that decision as a result of discussion.

Mr. Chairman, I am about to finish my opening remarks. I thought (certainly trying to pre-empt what the Committee members would ask me) if they asked me what my own personal vision would be for the financial statements, I would say that my vision would be one set of financial statements for the entire government to centralise the accounting system in Treasury, which involves having the processing of transactions done in Treasury, which would obviously entail movement of staff from individual ministries and portfolios down into the Treasury Department; and having chief financial officers in Treasury.

Mr. Chairman, I have no objection to quarterly reporting being reinstated. An external audit committee is certainly fine and welcomed. I have no objection to that. I again politely and respectfully disagree with what was said earlier about the distinction between entity and executive separation of transactions. I think that distinction should be removed and that we should have no such distinction.

I know that Members questioned this area. And one of the questions was to explain that distinction. And I will attempt to do that now by way of illustration.

Mr. Chairman, when the Legislative Assembly approves a budget here, it approves an appropriation bill and passes it into law. The law has a schedule of appropriations attached to it. That schedule of appropriation (or Budget, as it is popularly called) represents what the Cabinet is saying that it is willing to pay

for from the revenues coming to Cabinet. And, of course, those appropriations are expressed and stated in terms of "outputs." But if one were to separate the operating outputs from the capital outputs, and one were to add up the appropriation outputs and strike a total for the operating expenditures in the schedule to the bill, and you go to the financial statements and you add up the operating expenditures there, the two totals will be different. They will be substantially different. The magnitude of the difference could be as much as \$50 million.

It doesn't mean that anything is wrong. It doesn't mean that a mistake has been made. It simply means that there are certain expenses that are incurred by government departments which, therefore, ought to be properly reflected in the financial statements, as they are. But some of those expenditures the Cabinet has said, *We as a Cabinet are not going to pay for*. And my personal view is that that distinction, and having to explain that . . . I don't see the benefit, to be quite honest, of making that distinction. I believe that they should be removed.

It was put there in the financial management regime, Mr. Chairman, as a way of incentivising and encouraging individual departments to essentially have certain freedoms and certain flexibilities. So I would agree with the Auditor General about the need for removal of that distinction.

Mr. Chairman, quickly touching on some of the other questions which Committee members raised previously, year-end spending of budgets: The Internal Audit does an annual year-end exercise prior to the year end to review expenditures around the year end and to ask questions on any suspicious transactions with the real objective of trying to determine whether there is deliberate full utilisation of budgets towards the end of the year. And that is an annual exercise that the Internal Audit performs.

There is also a staff member in the Ministry of Finance who has now been given the popular title of a sheriff's role and he scrutinises payments requested by all the ministries and portfolios and offices in government.

Individual ministries and portfolios can obviously have a surplus at the end of a year. And if they don't get the required permission that surplus can actually be retained by the agency and used for critical expenditure that may not have been possible through the annual budgets. And that was a point that the Honourable Deputy Governor made about rewarding the Civil Service.

So, Mr. Chairman, I think I have said quite a lot. I did not completely read out every single paragraph in the opening statement. If I have to summarise where I am now, I would say that I think that there is a need for a fundamental review of the regime. And that review may conclude that the improvements are going to happen, and happen quick enough to restore public confidence in the financial reporting regime of

the government. It may conclude that. If it does, fine. But I think the discussion should be had.

Thank you, Mr. Chairman.

The Chairman: Members of the Committee, any questions for the Financial Secretary and his staff?

Mr. Winston C. Connolly, Jr.: Mr. Chairman, I am heartened by what the Financial Secretary has said, that your opinion is that there should be a comprehensive review. As advisor to the Minister of Finance, will you be advising him on an action plan and clear dates for implementation of that action plan? Or is that someone else in government?

Hon. Kenneth Jefferson: Thank you, Mr. Chairman.

Mr. Connolly, the honest answer is that such an action plan does not exist now. Certainly not developed by the Finance Ministry that I can take to the Honourable Minister of Finance with dates and times and steps and to say to him, *This is what I think you should do*. That doesn't exist now.

My approach would be to go to the Minister of Finance and initially have a verbal discussion with him. He is well aware, I am sure, of the public concerns surrounding the public sector financial regime, and to have a discussion with him, obviously make him aware of the report, let him be aware of the view of the Honourable Deputy Governor and his position, and to start it with a discussion.

Mr. Chairman, one of the points that I forgot to mention earlier was that I do have a major concern with the capacity in the government to undertake a review and action plan. That may sound strange, but it's the truth. And let me explain why. Right now the staff of the Ministry of Finance are engaged full time with trying to bring a budget to the Legislative Assembly in the month of October. I think the Honourable Premier has said publicly that the endeavour, the plan, the wish, the goal of the Government is to bring the budget here next Friday, the 4th of October (is my understanding). So right now finance staff are fully engaged in that.

Mr. Chairman, just as soon as that is finished, we have, under the Public Management and Finance Law, a strategic policy statement which has to be legally tabled in the Legislative Assembly on 1 December. So immediately after we finish the budget we get involved with a strategic policy statement during November to have it by 1 December. That having been finished, we then roll around to the new calendar year 2014. And by May, very early June, the Government has to have another budget in place for the year that will start on 1 July 2014.

So the cycle repeats.

Mr. Chairman, I do worry tremendously that even with a good action plan in place the existing capacity within the Ministry of Finance and its staff to execute that plan and to have this extensive discus-

sion that I think should occur, I worry about that being able to occur with the Ministry of Finance and progress being made.

I am also acutely aware that expenditures by the government are tight and severely restricted. So we are not in the fortunate position (we are not there yet) where we can think of expending significant sums of money to bring in external consultants to bring about any change. We all are consciously aware, I believe, that when the present regime was brought into effect it took a considerable period of time and an external consultant was brought into the process to bring about this change from cash basis accounting to accrual basis of accounting. So I do worry about capacity, Mr. Chairman.

The Chairman: Further questions?

Mr. Joseph X. Hew: Mr. Chairman, as the Financial Secretary mentioned, we are hoping to bring a budget to the House next week, Friday. Of course, whenever it is budget time, your name gets attached to a lot of articles and discussions. I want to ask you, based on this Public Management and Finance Law, what are your key roles (in your understanding) and functions? And do you have the resources, support and authority to fulfil your obligations as you see them?

Hon. Kenneth Jefferson: Sorry, Mr. Chairman, could I just ask a clarifying question to Mr. Hew?

Are you speaking specifically on budgeting or generally?

Mr. Joseph X. Hew: Generally.

Hon. Kenneth Jefferson: Okay.

Mr. Chairman, obviously one of our key . . . and when I say "our" I am referring collectively to myself and the Ministry of Finance. One of our key roles is to produce the annual budget for the government. Essentially we act, I believe, as a collating agency. We do question quite extensively ministries and portfolios as they submit their information for budget purposes and it is quite a stressful and exhausting exercise.

Do we have staff vacancies? Yes, we do. Every single agency in government is going to say that they do have staff vacancies and that they need more and more staff. So, my answer in respect of budgeting is that we would like to have more staff, but we simply have to make do with what we have. And it is stressful.

Mr. Chairman, when it comes to broader issues outside of the budget, the Ministry of Finance has other key roles. It certainly has the role of preparing the consolidated financial statements that I spoke about earlier and having those presented to the Government . . . to the Audit Office, sorry, for review. Do we need more staff in that area? Yes, we do. Can we

make do with what we have now? We have no choice but to do so.

Mr. Chairman, I think that one of the earlier discussions that the Deputy Governor was speaking about, and it is a valid discussion, was about performance reporting and the need to keep chief officers and chief financial officers accountable. And, you know, he needed to maintain pretty much the existing regime in order, which would hold chief officers and CFOs accountable. That is understood and there is no disagreement with that.

The Ministry of Finance and the Financial Secretary, in particular, the key responsibility is to advise the Honourable Minister of Finance. It is well understood when the Honourable Deputy Governor said that the 2009 Constitution gave the responsibility for finance to an Honourable Minister of Finance. That is understood. But it is also understood that the Constitution does actually trump (if I can use a common term) all other laws, and all other laws should be interpreted . . . even if they are not changed specifically to equal the explicit provisions of the Constitutions, individual laws should be interpreted as though they were changed explicitly, section by section, to accord precisely with the Constitution.

In the case of the . . . and so that immediately, if you like, Mr. Chairman, sets up a conflict with the Public Management and Finance Law which says that individual agencies financial responsibilities lie with chief officers down to a chief financial officer, down to accounting staff, and then the chief officers go report to the Deputy Governor. The role, then, of the Ministry of Finance and the Financial Secretary is one to produce consolidated financial statements and to assist agencies, ministries and portfolios, with establishing accounting rules and mechanisms by which they should conduct their financial management.

So there is a need, Mr. Chairman, to have the discussion about the Public Management and Finance Law versus the Constitution because there is room for disagreement there between the two and interpretation. And I think that needs to be ironed out.

Mr. Chairman, if there is something specifically that I have not answered for Mr. Hew, I will attempt to try if he has a specific comeback again.

The Chairman: Mr. Hew?

Mr. Joseph X. Hew: Yes, Mr. Chairman.

So, Mr. Jefferson, if I understand this correctly, you described your key role as producing . . . well, advising the Minister of Finance producing budgets and the consolidated financial statements. I am trying to think of it from my layman's terms . . . you are the person that says to the Minister of Finance, *Here is our budget for the coming year; here is what we intend to achieve, here is what we are going to spend, et cetera; here are our outputs, our inputs.* But after

that you have no authority, or you have no role in overseeing that these budgets are being adhered to?

Hon. Kenneth Jefferson: Mr. Chairman, we obviously have a role in that regard.

The Treasury Department actually prepares monthly financial statements for obviously the whole of government. I report that to the Cabinet. It is normally in the form of a Cabinet Note, and it presents to the Cabinet the expenditures that have been received by the government. It also presents the expenditures that have been incurred to a particular month end. You can have an individual month's expenditure, obviously, as well as accumulative expenditure, which is quite important.

And within that document there is a comparison between the actual revenues and the expected revenues to that point. There is a column that gives the actual results, a separate column that gives the budgeted expenditures. And there is a variance column. So the differences become highlighted.

The role, often, of the Treasury Department in preparing this report is that the initial pull of information from the general ledger, which would be supplied by individual ministries and portfolios entering information into the general ledger from their own particular individual agency transactions going into the general ledger the Treasury coming along and writing reports and getting aggregated information. Often-times the Treasury's initial review of those numbers highlight oddities and seemingly significant variance. And in preparing the eventual report to the Cabinet there is often a back-and-forth between the Treasury and individual chief financial officers in ministries and portfolios to iron out [variances]. And that takes time, unfortunately, Mr. Chairman.

So the Ministry of Finance does have a role in that regard in that it is looking, it is scrutinising budgets and comparing budgets with actuals and reporting that to the Cabinet.

Mr. Chairman, I would also say what I said earlier, there is now within the Ministry of Finance an individual who has been tasked by the new Government, by the new Cabinet, to undertake what was described as the role of a sheriff to scrutinise budgets, to question budgets, to question payments. And that obviously occurs.

So I would say that is a reasonable summation of the role that we undertake in relation to budgets.

The Chairman: Mr. Connolly?

Mr. Winston C. Connolly, Jr.: Mr. Chairman, does the Honourable Financial Secretary believe that the financial management framework is the right one for the Cayman Islands?

Hon. Kenneth Jefferson: Mr. Chairman, I am just pausing in my mind to try to answer an obviously important and loaded question.

I think, Mr. Chairman, that that needs to be reviewed. I think the system that we have now, and have had for many years, is perhaps a little bit more than we need. It is a bit more . . . on reflection, and not to trivialise the situation, I have likened the situation to a 16-year-old teenager wanting to learn to drive a vehicle and she is given a manual shift Ferrari to drive, whereas perhaps the best thing would have been an automatic Honda Civic. Right? That's the analogy I often use in my mind.

There is absolutely no doubt in my mind, and in all of our minds, that the intention of the Public Management and Finance Law was good by those who implemented it. It does contain many good principles which should still be retained and not thrown away. I simply think that perhaps the system can be simplified.

We all know that there are 15 core government agencies that produce their own financial statements. They get audited by the Audit Office. Those individual statements are reviewed in relation to International Public Sector Accounting Standards. The Audit Office has no choice but to make reference to those standards and what they require. So you get audit qualifications for things such as, *You're using the wrong fixed asset valuation numbers, so we are going to qualify your accounts. You don't have a number in your financial statements for healthcare costs* . . . right? Very few countries, Mr. Chairman, actually have full accounting for healthcare costs in their financial statements. So there are technicalities, obviously, in the IPSAS which are going to be difficult for us to always comply with and are going to lead to qualifications.

So I see the principles within the PMFL being retained. But, as I said, my own personal individual vision (and I didn't discuss this with my team before coming here) would be what I said earlier, Mr. Chairman: one set of accounts for the government, centralisation of the accounting function, chief financial officers going into the Treasury.

I know fundamentally . . . and I keep making reference to what the Honourable Deputy Governor has said, because it's important to do so—he is the head of the Civil Service and a good leader. I understand his concerns. It's reasonable to have those concerns. If you do retain chief officers in the Civil Service in the public sector, you can't avoid that. If you do retain chief officers and they need to be held accountable, chief officers are naturally going to say, *One of my big accountabilities that I need to be careful of is how I manage my budgets*. So, naturally, the Honourable Deputy Governor is thinking there needs to be that relationship maintained between chief officers and chief financial officers.

Right now, that relationship is one in which the chief financial officer and the chief officer sit physically within the same ministry on the same floor in the same office area. My very simplified thought would be if that chief financial officer actually went and sat in Treasury, there could be still a relationship. We could assign chief financial officers, per ministries and portfolios, and give them specific ministries and portfolios to account for. But you could have this discussion about whether a chief financial officer reported to, in legal terms, the chief officer, or whether the chief financial officer reported to the Accountant General or the Financial Secretary, but that there be a link back to a chief officer.

I perfectly . . . and the advisor to the Honourable Deputy Governor is still here so he's listening. I understand that there needs to be a link between chief officers and chief financial officers.

So I think to answer Mr. Connolly's question, I think the principles of the PMFL are very good. I think we can look at whether we need the full extent of what it requires.

Mr. Winston C. Connolly, Jr.: Thank you, Financial Secretary.

Mr. Chairman, just one and maybe two questions depending on the answer to number one.

Mr. Financial Secretary, are you then in agreement with the report that perhaps the complexity of the PMFL is overly restrictive on the way that government produces their finances? And, if so, would you agree that by making it more simplified the government will be able to produce these reports in a more timely and efficient manner and, in the end, the product will be less costly to the stakeholders?

Hon. Kenneth Jefferson: Mr. Chairman, I think the best way to answer that question would be . . . I think we need to have a discussion all over again as to how the government does its budgeting.

I think we want to start from there, because this is the present environment: Ministries and portfolios, as required by the Public Management and Finance Law produce budgets on the basis of outputs, not inputs. The budgets that come to the Legislative Assembly in the form of the Appropriation Law are on the basis of advice to an honourable minister, X dollars. Sitting inside that number are going to be personnel costs, supplies and consumables, depreciation. A whole raft of numbers, input costs, go in to make up that number. Chief officers are held to be accountable for that number.

When you delve deeper into the budget documentation, you will find that there are a number of quantity measures that are specified for that particular output and for that particular dollar value. Typically you see simple things like X number of Cabinet papers to be produced during the course of the year.

And there are quality measures; there are timeliness measures, all specified.

I am speaking specifically, obviously, now on budgeting. The process of producing those budget numbers is time consuming. And during the course of the year staff have to obviously complete time sheets and essentially code their time to particular outputs (*I spent X number of hours during the course of the day doing this particular output*).

I think the question is definitely chief officers, everyone within the public service, need to be held accountable for their performance. At the moment, essentially that is how chief officers and other staff members beneath them in the ministry or portfolio are being performance judged, *Did you meet these tasks? Did you stay within your budgets?* and so forth. That is a very time consuming process to even get the budget here. That takes a lot of time, Mr. Chairman, by chief financial officers and their staff to produce that budget.

Having got that out of the way and the year then ensues and transactions are incurred, they obviously have to account for those which, again, we do have the situation where some ministries may account for something slightly different from another ministry accounting to the same very same item. That is a possibility.

So I think definitely, in my mind, simplification, centralisation would assist in the quality of information, the timeliness of information. But I would end by saying that I think we need to re-think is this how we want to keep chief officers, chief financial officers, public servants, accountable for their actions? Is this the best way?

I think we need to have that discussion, Mr. Chairman.

The Chairman: Thank you, sir.

Mr. Jefferson, I do have one question for you. In terms of the implementation of the Public Management and Finance Law back in 2004, were there any real unintended consequences as a result of implementation that might have adversely impacted the abilities of various ministries and departments in terms of complying? Particularly, I am concerned about the costs associated with implementation and compliance.

Hon. Kenneth Jefferson: I think, certainly, Mr. Chairman, it is definitely the case that the number of civil servants has increased as a result of it. If we were to have taken a snapshot of the Treasury in the days of cash accounting and input basis of budgeting and you took the number of staff in Treasury plus the other staff members throughout ministries and portfolios and you were able to count them, those directly responsible for budget preparation and accounting, and you compared that number with what we ended up with in individual ministries and portfolios, the number undoubtedly increased. So there was an increased cost there.

Of course, the increased cost was to be balanced by the benefits of enhanced accountability and a better system of reporting the government's financial transactions. There is no one in this room, I believe, that is going to suggest that we move back to the cash basis of accounting. No one is going to do that. So that move was good, and that's a benefit for the public and for the Government to be balanced and matched against the actual enhancement of financial cost.

You then had the benefits of each individual ministry or portfolio producing its own set of financial statements which the public could see. It could judge that particular agency as to how well it has done. That wasn't there in a cash basis of accounting, on input basis of budgeting, that wasn't there before.

So I think that the Public Management and Finance Law did result in enhanced costs. But to be fair, the enhanced costs were also meant to be counteracted by better information for the Government, better information for the public, more accountability within the public service.

Unintended consequences, Mr. Chairman: I certainly think an unintended consequence has been the reality of a lack of confidence—and I say that with a lot of sadness—a lack of confidence by the public in the results being expressed by the Government. All one simply has to do is go on the website that we all know and read the blogs. It is punishing.

You typically see there, *Well, we'll believe the results when we get the audited results*. So, certainly, an unintended consequence has been un-timeliness and a number of qualifications and, as a result of that un-timeliness and those qualifications, a lack of confidence. And again, we are having a very circular discussion. Again you end up saying, *Well, are IPSAS's standards too rigid? Is it automatically going to cause you to get into qualifications?* So we go quite circular in our consideration.

The Chairman: You touched briefly, sir, on an issue that is very near and dear to me. When I look at the Auditor General saying, and has said, certainly here this morning as well, that the 2011 accounts basically is a disclaimer of an opinion. The 2012 [accounts] are likely to be as well. In my former world that was looked upon as basically a failure.

I recognise that there are a lot of issues that he has highlighted, or will be highlighting, in his report that may be contributing to the disclaimer of opinion. What steps will be taken by the Ministry to ensure that these issues are addressed to ensure that . . . ultimately we have got to get back to where we were previously with being able to get an unqualified opinion. Otherwise, I question the usefulness of the annual reports or the annual accounts that we are getting with disclaimers of opinion, in terms of their usefulness to any third-party user.

Hon. Kenneth Jefferson: Mr. Chairman, you are absolutely right. As I said before, I think we have 14 or 15 core government agencies that produce their own individual financial statements. There are some small ones in there. The Audit Office itself, the Information, the Complaints Commissioner, et cetera. But any one of the big ministries and portfolios that ends up with a qualification, when you put them all together that individual qualification may be so significant . . . it will be significant enough to the whole to cause the Auditor General to not issue a qualified opinion.

Mr. Chairman, the immediate process that comes to mind (and I certainly welcome assistance from other members of finance staff here as well), the immediate process that comes to mind to address that is this oversight committee that essentially members of finance and other agencies in government assign particular individuals to ministries and portfolios when they are preparing to meet the 31st August deadline for the year-end accounts.

So, by way of pure example, the Accountant General has a number of agencies to which she acts as sort of a liaison person between the agency and the Audit Office. And the intention is, and it does work, that year after year she and others would assist that agency in improving the information which the Audit Office is requiring.

Obviously discussions with the Honourable Deputy Governor, as well, and chief officers in their weekly meeting with the Deputy Governor, can use that forum to highlight the fact that the quality of information as judged by the Audit Office is not as good as it can be. Mr. Chairman, I would welcome other members of the team here to perhaps state anything that I have missed in terms of how do we . . . what steps we are taking to improve the results.

That's the one that springs to mind immediately, the work of the oversight committee. We have also (I have just been shown) done the major exercise that led to qualifications in the past of significant re-evaluations of fixed assets—certainly not all of them, but properties and lands and buildings. That exercise was done recently. I understand that that has resulted in a significant uplift, or increase, in the value of fixed assets. That was one of the grounds on which the Audit Office had qualified many agencies' accounts, simply on the basis that the fixed asset values in those accounts were significant and they were outdated. Therefore the Audit Office reached a qualified opinion.

Mr. Chairman, the Cabinet recently has approved the Pension Actuarial Valuation that was done in 2008 and in 2011. Obviously one is due in 2014 (every three years). Again, pension valuation within the public sector, in general, is a source of audit qualification and disagreement. We have taken the step to . . . the Cabinet has taken the step to accept those valuations. And also they actually presented separate-

ly a short-term financing plan for the government for pension contributions in the future.

The Cabinet has also accepted the need for the Actuary to undertake the establishment of pension contribution rates for individual statutory authorities and government companies and not just using one general rate.

So I would say, Mr. Chairman, the re-evaluations, the exceptions, the pension liabilities, the continued operation of the oversight committee, which takes place each year, as we come up to preparation there needs to be continued dialogue amongst chief officers and chief financial officers about the quality of information. I think those are some of the ways that I think we have slowly addressed some of the reasons for qualifications.

I think another huge one (if I will end here, Mr. Chairman), another huge area for qualification is healthcare benefits. If we believe that the pension deficiency is a big number, the healthcare cost number makes that look small. So that is not to scare anyone, Mr. Chairman, but it is significant. There is certainly no need for alarm. The Government is continuing to do what many Governments do when it comes to healthcare costs. It meets those out of its ongoing revenues. I think we are ahead slightly in that we have brought right on the face of the balance sheet of the Government the actuarial deficiency when it comes to pensions. Again, not many countries actually do that.

The Chairman: I don't think, personally, that should be an excuse for us not to do it. Just my view. But I am curious to know if there is any plan on the part of the Government to determine what that liability is and actually make provision for that in its financial statements.

The effective route we're looking at is extending the work of the Actuary who is doing the work on the pension liability. It's an extension of the work that could be incorporated in the work he will be doing in 2014.

Hon. Kenneth Jefferson: Thank you, Mr. Chairman.

Honesty is always the best policy. The Actuary has not been tasked specifically to do that. I can say, though, that when the Government did its bond issue back in 2009 one of the requirements when putting together the prospectus the offering memorandum for that issue was an estimation of what the healthcare liability number would be. The same Actuary did his best, obviously, to derive that number. And he did, and he put it into the offering memorandum.

He has always said that the exercise of establishing the healthcare cost liability, or a deficiency number, is primarily one of definition and he would need to know and understand what the benefits are in terms of healthcare, benefits that can accrue to various sections of the public service. So you obviously have quite a variety—you have civil servants them-

selves, you have seamen and veterans, you have spouses—and so he saw the exercise as needing to get a clear understanding of what the benefits available to the public service are in order for the valuation to be done objectively and properly.

I think, Mr. Chairman, that it is something that I will discuss with the Minister of Finance. I agree with you. It is not that the size of the number should scare us away from not doing it. I agree with that completely. I don't think it's been that. I think, unfortunately, it is the ongoing continuous cycle of the closely packed schedule of the Government's financial system regime in terms of dates that immediately as you meet one deadline you are into the next. So I think it is one more of timing and busy schedules than anything else.

The Chairman: Okay. Thank you.

Any questions from Members?
Mr. Hew?

Mr. Joseph X. Hew: Mr. Chairman, I was wondering . . . I know he mentioned this in his opening remarks, but I was wondering if the Financial Secretary or one of his team could update us on the progress with the IRIS updates and whether or not it is a full re-implementation with some of the recommendations in the report, or whether we are just updating it.

Hon. Kenneth Jefferson: Mr. Chairman, just give us a few seconds. I think the Accountant General will provide an answer for that. She is best placed to answer.

The Chairman: For the record, would you mind just stating your name and position?

Mrs. Debra Welcome, Accountant General, Treasury Department: Debra Welcome, Accountant General.

Could Mr. Hew repeat the question so I can answer all the aspects?

Mr. Joseph X. Hew: Certainly.

Mr. Chairman, I was just asking for an update on the IRIS system and whether or not we are doing updates or if we are doing a re-implementation with the recommendations as stated in the report.

Ms. Debra Welcome: Thank you, Mr. Chairman.

The current version of the IRIS system that we are using is currently on extended support. That extended support will expire in November of this year.

There has been a business case put forward and accepted that we would upgrade the IRIS system to the latest Release 12. That is expected to be implemented in late December, early 2014.

It is not a re-implementation as mentioned in the audit report. While there are a lot of features that

are currently in the version we are using (Release 11.5) that is not being used by ourselves; it was never implemented or turned on for use. So we are going to be turning on those features, as well as Release 12 also has some enhanced features which we are also going to be taking advantage of.

The Chairman: Ms. Welcome, do you anticipate that with the changes that are going to be made there are any potential conflicts with the Public Management and Finance Law, or issues with it and compliance?

Ms. Debra Welcome: No, Mr. Chairman, we do not contemplate that. The Oracle system is used by major firms, Fortune 500 firms, and they use it well.

The problem we had was that our implementation, the initial implementation was not done well. So recognising that and the fact that we need to move to an upgrade, we thought we would take advantage of the time that we are going to use for the upgrade and also make those changes to fix what was not implemented properly, or was not included initially.

The Chairman: Okay.

Capt. A. Eugene Ebanks: Mr. Chairman, can the Accountant General say the upgrades that are proposed . . . how far in the future do you foresee them being up to the par that we need at this stage?

Ms. Debra Welcome: Mr. Chairman, I do not have that information before me. I know it was shared with us previously. But I would want to think it is something about seven years.

The Chairman: Other questions for these witnesses?

Hon. Kenneth Jefferson: Mr. Chairman, if I could just crave your indulgence, because it is an important point. I just had a brief sidebar with the advisor to the Deputy Governor. I just wanted to clarify, because his notes said otherwise.

I think it was Mr. Connolly who asked earlier about action steps to improve the system. There seems to be some difference between what Mr. Gough's notes say and what I am fairly confident I said, which is . . . I believe I said to Mr. Connolly an action plan does *not* exist. I wouldn't be able to go to the Minister of Finance with a plan that said, *Step #1 involves this . . . and have it accomplished by date so-and-so.*

That plan does not exist.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, that was my understanding of what he said.

The Chairman: Mr. Financial Secretary, you have stated categorically here today that you agree with the Auditor General's recommendation that an urgent and

detailed review be undertaken of the PMFL. Is that your advice to the Minister? Or will that be your advice (is perhaps more appropriate)?

Hon. Kenneth Jefferson: Mr. Chairman, that is definitely my own personal view. And I will convey that view to the Honourable Minister of Finance.

I would tag on to that that I will also say to him that the Honourable Deputy Governor, who is the leader of the Civil Service, and one to be respected, has a slightly different view.

The Chairman: And are you aware of any plans or . . . yes, I think "plan" is the right word . . . plans to undertake such a review?

Hon. Kenneth Jefferson: I think, Mr. Chairman, the Honourable Deputy Governor did say earlier that the civil servants had collated and put together a number of reports and suggestions from external consultants and also from chief officers as to ideas as to how the existing regime should be changed, and that such a report does exist. I believe it is to be . . . his intention is to examine that report and to implement, obviously, all that is sensible from it as quickly as he can.

The Chairman: So if I heard that correctly, you feel a sufficient review has already, then, taken place, and that all that remains is for a report to be given to the Minister with regard to the changes?

Hon. Kenneth Jefferson: Mr. Chairman, I am just conferring with the chief officer.

I was advised that the Honourable Minister of Finance does want a review done, which I know, then, would be separate to the report that the Deputy Governor spoke about earlier this morning. So the Minister of Finance does want a review of the Public Management and Finance Law regime done. I believe, Mr. Chairman, that you may get involved in that exercise as well.

The Chairman: Okay.

Thank you, sir.

Any other questions from Members?

Mr. Financial Secretary I would like to thank you and your team for your time here this morning, and for your testimony before this Committee. We thank you once again and excuse you at this time.

Hon. Kenneth Jefferson: Thank you, sir.

[Hon. Kenneth Jefferson and team depart]

The Chairman: Members of the Committee, I am mindful of the time, but we do have one group of witnesses that were deferred from our last meeting, last week Friday, with regard to the Report of the Auditor General on Financial and Performance Reporting—

Statutory Authorities and Government Owned Companies.

Would Members prefer that we just go ahead, continue our work and take that testimony? Or do you prefer to take a break and have lunch, come back and finish.

[Inaudible interjection]

The Chairman: Pardon?

Oh, it isn't here yet.

All right, we are going to take our next witnesses!

FINANCIAL AND PERFORMANCE REPORTING - STATUTORY AUTHORITIES AND GOVERNMENT COMPANIES FOR THE YEAR ENDING 30 JUNE 2011

The Chairman: The Committee then would like to call its next witnesses: Ms. Faith Ebanks, Acting Managing Director Public Service Pensions Board (PSPB); Mr. Barton Solomon, Senior Manager for Financial Reporting, at the Public Service Pensions Board; Ms. Melanie Ebanks-Jackson, Director Designate of Plan Administration, Public Service Pensions Board.

[Pause]

The Chairman: Thank you for being here this morning. Sorry for the delay in taking your testimony.

Ms. Ebanks, if you would speak into the microphone, introduce yourself and state your position, and introduce those other member of your team with you and their positions as well.

Ms. Faith Ebanks, Acting Managing Director Public Service Pensions Board (PSPB): I am Faith Ebanks, Acting Managing Director of the Public Service Pensions Board. With me I have Mr. Barton Solomon, who is the Senior Manager for Financial Reporting, but is actually acting as the Director of Financial Reporting; and Melanie Ebanks-Jackson, who is the Director Designate of Plan Administration.

The Chairman: Ms. Ebanks, do you have a statement you would like to make to the Committee before we commence taking your testimony?

Ms. Faith Ebanks: Not really.

The Chairman: Okay.

Ms. Faith Ebanks: I think that I am clear on the reason why we have been asked to come to the Legislative Assembly to give testimony, and we are prepared for questions that might be directed to us.

The Chairman: Well, with that, then, we will go ahead open to Committee members and say that these witnesses are here for your questions.

Capt. A. Eugene Ebanks: Mr. Chairman, in the report from the Auditor General, at 71, it says, “. . . I was unable to verify the amount reported for overpaid contributions amounting to approximately \$1.7 million due to a general lack of evidence including the absence of an adequate subsidiary ledger showing the amounts attributable to individual participants.”

Just for clarity, can Ms. Ebanks tell us how the overpaid contributions come about?

Ms. Faith Ebanks: Absolutely.

Mr. Chairman, the \$1.7 million position has accumulated over a period of time. Almost from the inception of contributions being made there have been small adjustments to each contribution from each employer. But in order to determine the exact amount of the overpayment and how it should be apportioned, a total reconciliation of each participant account—and we now have, like 6,000 participants—has to be carried out. And the board has authorised management and has made available additional resources to commence the project of this reconciliation.

We are now about six months into the project and it is going to be a time-consuming reconciliation because every single payment for every single participant that has been made into the plan or into the fund has to be reconciled against accounting records, the accounting records against what is in the pension administration system, and also by confirmation from each employer.

The Chairman: You mentioned that you are six months into this process. How far on are you in terms of timing and having this process completed?

Ms. Faith Ebanks: I am not the project manager, so I don't want to say specifically a time at this point. But six months into the project we have made a lot of progress. But I would like the Committee to bear in mind that we are dealing with very old records, some that go back to the Treasury when payments for pension were made through the Treasury. So it is not a scientific method of doing the reconciliation where you have an accounting system that is computerised and everything you can get through the computerised computer system. It is not like that.

So, we have approximately 30 employers and for each one of those employers, by individual employee, the reconciliation is being done. So we are hoping that by the end of this fiscal year we will have a complete reconciliation done.

The Chairman: In the Auditor General's report, at paragraph 75, the Auditor General talks specifically

about that the funds are pooled for various different pension funds that you administer and provide services for. Does that present any particular challenges for you in terms of proper segregation of assets or ensuring that participants' pension accounts or pension benefits are properly recognised and accounted for?

Ms. Faith Ebanks: Mr. Chairman, it is problematic as far as trying to do separate financial statements because from inception the funds have been pooled. There are not separate administrative expenses for each plan. There is an annual budget done for admin expenses and that spreads across all of the plans.

The assets of each plan are segregated for accounting purposes. The challenge comes when you try to break down the admin expenses by plan. The segregation of assets is easy; it is apportioning the admin expenses consistently over the years that has presented a problem as far as segregating the financial information.

However, management and the board are working on a presentation for the Auditor General. I think one of our trustees has already been in touch with the Auditor General to look at a presentation that will be acceptable for the Office of the Auditor General.

Capt. A. Eugene Ebanks: Mr. Chairman in [paragraph] 74 the Auditor General said that both the 2011 and 2008 actuarial valuation reports were deferred by Cabinet. Was there any reason given for the deferral?

Ms. Faith Ebanks: Mr. Chairman, I am not aware of any reason that was given, or any reason was given to the Public Service Pension Board. We are required every three years to have an actuarial valuation carried out for the Government. It goes to Cabinet. And Cabinet accepts it, or, if they don't accept it, they can have their own actuarial valuation carried out.

To my knowledge it was not anything of that magnitude that they wanted to have another actuarial valuation carried out. The reason for its deferment was certainly not communicated to me. But I have been advised (I think it was either at the beginning of this week or the end of last week) that Cabinet has now accepted both of those valuation reports.

Mr. Winston C. Connolly, Jr.: Mr. Chairman, the Auditor General has identified a number of matters here in his report, on pages 17 and 18, and in general in the report. What steps does the PSPB have to address those matters? And can you share with us, if it has, what that action plan is?

Ms. Faith Ebanks: Can you specify which one, or all of the matters on pages 17 and 18?

Mr. Winston C. Connolly, Jr.: Yes.

I guess my question is, having raised those, and you having read the report, is there an action plan to address any of the concerns that he has set out in his report?

Ms. Faith Ebanks: We have an action plan to address all of his concerns.

As far as the \$1.7 million over-payment, as I stated earlier, a thorough reconciliation of every single contribution that has been paid into the fund is being carried out. The actuarial valuation report . . . by law we are required to have an actuarial valuation carried out. To my knowledge, not one single valuation period has been missed. Once we have carried out the valuation, it is . . . we can't do anything further than to have it taken to Cabinet.

As far as separate financial statements, we are working on a plan for the 2013/14 year to ensure that that comes off of this report.

Mr. Winston C. Connolly, Jr.: And you believe you have the organisational capacity to do this in a timely fashion?

Ms. Faith Ebanks: The reconciliation . . . the board approved additional resources for us because it is not something that the staff complement that the Pension Board currently has could carry out their day to day duties in addition to a project of that magnitude. So the board did approve some additional resources for that project specifically.

Financial accounting . . . separate financial statements are really not . . . it is only burdensome in terms of trying to establish a consistent method of producing them. But it is not outside of the ability of the current financial staff.

The Chairman: Ms. Ebanks, do you believe that with the additional resources that you have that your goal of having it completed by the end of the year is achievable?

Ms. Faith Ebanks: The end of the fiscal year.

The Chairman: That was my next question!

Ms. Faith Ebanks: Yes. Not the end of the calendar year. I do not—

The Chairman: So, June 30th 2014—

Ms. Faith Ebanks: . . . 14—

The Chairman: —would be your goal.

Ms. Faith Ebanks: I do not believe the end of the calendar year is realistic.

The Chairman: Okay.

And you believe that is achievable?

Ms. Faith Ebanks: I do. I do. It will still present a challenge, but I believe it's doable.

The Chairman: Okay.

Ms. Faith Ebanks: And I am speaking on behalf of the project manager. It is not me. But we meet quite regularly to discuss the . . . to talk about where we have gotten on the project. So, yes, I believe that he would not have any objections to me saying that it is achievable by the end of the fiscal year.

The Chairman: Okay.

Any other questions for these witnesses?

Ms. Faith Ebanks: Mr. Chairman, I did not have a statement earlier, but there is something in this report that I would like to address.

It's on page . . . it's actually . . . it would be page 7.

The Chairman: Page 7?

Ms. Faith Ebanks: Exhibit 2. At the bottom where it talks about past service pension liabilities.

Just a point of clarification because I am not sure that this paragraph might not be misleading to third parties who are not aware of the difference between IS-19 valuations and funding valuations.

The triennial actuarial valuation that has to be carried out is part of the requirement of the fund. The fund has to pay for that. IS-19 valuation is the responsibility of each employer. And the only reason that an employer would not have their valuation is if they haven't paid for it.

So I just wanted to clarify that. An IS-19 valuation is carried out each year by the actuary. And a letter of engagement is sent out. And it clearly states that the report will be made available to them, once the fees for the previous years have been paid. So, if the Auditor General's Office was unable to quantify the liability, it would be because the employers in question had not paid for their reports and did not have them available. Because every single year IS-19 . . . since 2004 an IS-19 valuation has been carried out.

The Chairman: And that is available to each . . . when you refer to "employer" are you referring to ministries?

Ms. Faith Ebanks: CIG as an employer; each statutory authority as an employer.

The Chairman: And you are saying that if they didn't have those figures or those numbers that information, is because they hadn't paid for it?

Ms. Faith Ebanks: Each year the two . . . the IS-19 valuation would have been carried out for 2010/11. The 2010/11 would . . . it would . . . it shows the funded status for the current year and the pension expense for the following year. So . . . and it's always done prior to August 31st, when the financial statements are due.

The Chairman: Okay.

And it is this done by the PSPB?

Ms. Faith Ebanks: It's not done by . . . it is done by the Actuary who—

The Chairman: Okay. Employed by PSPB?

Ms. Faith Ebanks: We did have an actuary employed by PSPB previously, but that arrangement has concluded now and we are in the process of hiring an actuary consultant who will also be responsible for . . . the Financial Secretary has charged the Pension Board with coordinating the efforts of IS-19 valuations for each employer.

The Chairman: Okay.

And then just one other question from my perspective, just wearing my former accounting auditor hat, your financial statements are prepared in accordance with IFRS, or IPSAS?

Ms. Faith Ebanks: IFRS.

The Chairman: Okay.

Mr. Auditor General, do you mind if I ask you have any particular observations on that?

Mr. Alastair Swarbrick: Yes, Mr. Chairman. I think we have just one observation around the IS-19 valuation, that from our perspective there seems to be . . . we seem to think there is a timing difference in the information not initially available when we ask for it.

Ms. Faith Ebanks: It is.

Mr. Alastair Swarbrick: So, I don't think it's just about payment of the money for the valuation; it's about the timing difference, as well, when we ask for those valuations. So, hopefully that will be addressed going forward, but that's where we are.

The Chairman: Any other questions of these witnesses?

[No audible reply]

The Chairman: Then I would like to thank you for your testimony here this afternoon. Thank you for your

time. We will release you at this point in time. Thanks again.

Ms. Faith Ebanks: Thank you very much.

[Witnesses depart]

The Chairman: Members of the Committee, do you have any other business to come before the meeting?

[No audible reply]

CONFIRMATION OF MINUTES

11 July 2013

[Deferred]

The Chairman: If not, then the only other item on our agenda is the approval of meeting minutes of Thursday, 11 July 2013. They are not quite ready; they are being edited and reviewed at this point in time. So if we could defer that to the next point in time that we get together, I think that would be beneficial.

ADJOURNMENT

The Chairman: If all are in agreement then, all that remains for me to do is to thank each and every one of you for your presence and your participation. Thanks also too, to the people we had from the Treasury and the Auditor General's Office, and for your patience as we worked through a number of these reports.

Hopefully in due course . . . it will be up to the support staff here to get the transcripts and everything ready for us to convene and debate our recommendations on these reports and the testimony we have taken.

So we stand adjourned until we are next able to meet. Thank you all again. Have a good weekend.

At 12:20 pm Public Accounts Committee stood adjourned sine die.



THE STANDING PUBLIC ACCOUNTS COMMITTEE MINUTES OF PROCEEDINGS

Meeting
Thursday, 16th January 2014
11:00am

Minutes of proceedings of the Standing Public Accounts Committee's meeting held Thursday, 16th January 2014 at 11:00am in the Large Conference Room of the Legislative Assembly Building, Grand Cayman.

Present: Mr Roy McTaggart, MLA – Chairman
Hon McKeeva Bush, MLA – Member
Mr Winston Connolly, MLA – Member
Mr Joseph Hew, MLA – Member
Capt Eugene Ebanks, MLA – Member
Ms LeSanneo McLaughlin – Clerk of the Public Accounts Committee

Persons in Attendance:

Mr Garnet Harrison, Acting/ Deputy Auditor General – Office of the Auditor General
Mr Martin Ruben, Audit Principal of Performance Auditing – Office of the Auditor General

1. Meeting Call to Order

There being a quorum present (Standing Order 77(2) refers), the Chairman called the Meeting to order at 11:20am.

2. Apologies

All Committee Members were present therefore there were no apologies.

3. Approval of PAC Minutes

- Thursday, 11th July 2013
- Wednesday, 18th September 2013
- Wednesday, 18th September 2013 (*with Witnesses*) – Verbatim (Draft)
- Thursday, 19th September 2013 (*with Witnesses*) – Verbatim (Transcribing)
- Friday, 27th September 2013 (*with Witnesses*) – Verbatim (Final)
- Thursday, 17th October 2013

The above Minutes, as amended, **approved** on a motion moved by Capt Eugene Ebanks and seconded by Mr Winston Connolly.

4. Matters arising from the Minutes

Mr Winston Connolly suggested that going forward the Minutes should have a list of 'action points' or list of task so that the Members can easily identify what task were completed or outstanding.

The Committee was in agreement with this suggestion.

5. Memorandum from the Attorney General

This Memorandum regarding the post of Deputy Chairman of the PAC dated 10th January 2014 was deferred to be dealt with under any other Business.

6. Approval of Auditor General Invoices

- Invoice No. 206241 dated 5 December 2013 for the amount of \$24,364.38
- Invoice No. 206258 dated 9 January 2014 for the amount of \$7,452.40

Hon McKeever Bush addressed those present from the Office of the Auditor General ("OAG") with his concerns. He questioned how the OAG can say it is a fair audit when there are internal bodies that pertain to their work. There are standards that should be followed and Hon Bush indicated that serious action could be taken against the OAG. Hon Bush claimed that persons whom the Auditor General wrote about in his Reports were never interviewed.

Mr Martin Ruben confirmed that the OAG do follow the *International Organization of Supreme Audit Institutions (INTOSAI)* procedures.

Hon Bush concerns still stands with regards to the production of the OAG Invoices and is only in agreement because the vendors who did the work need to be paid. With reference to previous Minutes, Hon Bush reminded the Committee that additional documentation or invoices should be provided when there are external consultants included.

Mr Connolly suggested approving the invoices since they were small amounts, however with a motion that the OAG provides an invoice from Ms Patricia Forsberg, an external consultant, to confirm the consultant fees indicated in the November expenses of Invoice No. 20624. The Committee agreed. Mr Harrison noted the request and said he would provide this following the adjournment of the meeting.

The above invoices were then **approved** by a motion moved by Mr Winston Connolly and second by Capt Eugene Ebanks.

7. OAG Reports for Consideration

- a) Financial and Performance Reporting - Status Update as at 30 September 2013
The OAG recommends that there not be a hearing for this report as it is an update and can be Tabled.
- b) Governance in the Cayman Islands Government: Key Messages – December 2013
- c) Governance in the Cayman Islands Government: Describing the Framework – December 2013
- d) Governance in the Cayman Islands Government: How Core Government Manages Resources – December 2013
- e) Governance in the Cayman Islands Government: The Accountability of SAGCs – December 2013

f) Governance in the Cayman Islands Government: A Survey of SAGC Governance – December 2013

Mr Ruben gave an introduction as well as provided handouts with notes and information in regards to the Governance reports. He also indicated that these Reports took a year to complete.

Mr Harrison noted over a period of 6 months comments were received and changes were made however management responses to the recommendations were not received in a timely fashion. The amendments to the above mentioned SAGC Reports were sent out to the Members as Appendixes to the Report.

Witnesses will be called for hearing for all the above 'Governance in the Cayman Islands Government' Reports. Mr Ruben briefed the Committee on each Report and in conclusion Hon Bush commended the OAG for their work on the Reports however suggests that the reports be debated by the PAC in Chamber.

The Committee was in agreement and briefly discussed who should be called for questioning and the type of questions that should be asked. The PAC will discuss how they wish to address the witnesses after reviewing the Reports. The Chairman suggests a separate meeting to confirm the questions and witnesses.

Mr Harrison suggested that the PAC to call witnesses from the Private Sector. The following witnesses were recommended to be called from the Cayman Islands Government:

- *Peter Golf, Advisor to the Deputy Governor*
- *Gloria McField-Nixon, Chief Officer - Portfolio of The Civil Service*
- *Ken Jefferson, Financial Secretary – Ministry of Finance & Economic Development*
- *Mrs Sonia McLaughlin, Senior Assistant Financial Secretary – Ministry of Finance & Economic Development*
- *Jennifer Ahearn, Chief Officer – Ministry of Health, Sports, Youth & Culture*

Mr Ruben noted that there were a few persons or boards that did not respond to the OAG on *Governance in the Cayman Islands Government: How Core Government Manages Resources – December 2013*. These were:

- *UCCI*
- *Cayman Airways*
- *CIDB*
- *Deputy Governor*

For the Report on *Governance in the Cayman Islands Government: A Survey of SAGC Governance – December 2013*, there were 25 voluntary query submissions to persons of those entities and only 17 responded.

Mr Ruben advised the PAC that the reports will be made public on the 22nd January 2014 and it will also be televised at the Government Administration Building at 10am. There will be a press conference held by the Deputy Governor.

Hon Bush disagreed with this approach and made his concerns known stating that it should be the PAC hosting the press conference and not the Deputy Governor.

8. PAC Reports for Consideration

- a) Management of Air Ambulance Services: Public Interest Report - June 2013
- b) Restoring Financial Accountability: A Time for Change? - June 2013
- c) Financial and Performance Reporting: Statutory Authorities and Government Companies for the year ending 30 June 2011
- d) Management of Major Capital Projects – June 2012
- e) Consultation on our Future Performance Audit Programme – June 2013

The Chairman indicated that the above mentioned Reports are now ready for PAC conclusions. He wished to have the draft PAC Reports ready for the Committee to review in the coming weeks.

9. Schedule of Meetings

The Chairman distributed a schedule for PAC meetings for 2014. The months that were omitted due to House Sessions were the month of March and May.

It was suggested that the meetings be sent via outlook calendar for the dates listed. This was **approved** by a motion moved by Mr Winston Connolly and second by Hon McKeeva Bush.

10. Any Other Business

The Chairman referred back to Item No. 5 of the Agenda, the appointment of a Deputy Chairman. The Committee opened to floor for nomination of a Deputy Chairman of the PAC. Hon Bush was nominated by Capt Eugene Ebanks. Hon Bush indicated that in the past the PAC was headed by the Opposition so he would accept the position of Deputy Chairman for the PAC.

Hon McKeeva Bush was **nominated** as the Deputy Chairman of the Public Accounts Committee on a motion moved by Capt Eugene Ebanks and second by Mr Winston Connolly.

The PAC made a recommendation to increase the number of Members of the committee from five (5) to six (6) with an Independent Member to balance the Committee.

11. Adjournment

There being no further business, the Chairman adjourned the meeting at 12:55pm.



THE STANDING PUBLIC ACCOUNTS COMMITTEE MINUTES OF PROCEEDINGS

Meeting
Tuesday, 15th April 2014
10:00am

Minutes of proceedings of the Standing Public Accounts Committee's meeting held Tuesday, 15th April 2014 at 10:00am in the Large Conference Room of the Legislative Assembly Building, Grand Cayman.

Present: Mr Roy McTaggart, MLA – Chairman
Hon McKeeva Bush, MLA – Deputy Chairman
Mr Winston Connolly, MLA – Member
Mr Joseph Hew, MLA – Member
Capt Eugene Ebanks, MLA – Member
Ms LeSanneo McLaughlin – Clerk of the Public Accounts Committee

Attendees: Mr Alastair Swarbrick, Auditor General – Office of the Auditor General
Mr Garnet Harrison, Deputy Auditor General – Office of the Auditor General

1. Meeting Call to Order

There being a quorum present (Standing Order 77(2) refers), the Chairman called the Meeting to order at 10:20am.

2. Apologies

All Members of the Committee were present therefore there were no apologies.

3. Approval of PAC Minutes

- Thursday, 16th January 2014
- Wednesday, 19th February 2014
- Tuesday, 4th March 2014

Thursday, 16th January 2014 minutes as amended were **approved** on a motion moved by Mr Winston Connolly and seconded by Hon McKeeva Bush.

The minutes for Wednesday, 19th February 2014 and Tuesday, 4th March 2014 were deferred until the next meeting.

4. Matters Arising from Meetings

No matters that arose from the minutes.

5. Approval of Auditor General Invoices

Mr Alastair Swarbrick, the Auditor General provided the Committee with supporting documentation for the consultant fees and travel expenses.

- Invoice No 206303 dated 7 April 2014 for the amount of \$64,792.45

Hon Bush objected to the CI\$790.00 fee listed on the invoice as a billed amount to PAC for the OAG to attend PAC meetings. It being a clear line item on the invoice, the Committee questioned the Auditor General and asked for further details as to why PAC would be billed.

The Auditor General explained that the cost was administrative; the general overhead was billed and the allocation was kept segregated to show the particular cost and time spent. The Auditor General agreed that it should be moved and included with the administrative fees rather than itemized in such a way going forward.

The above invoice was **approved** on a motion moved by Mr Winston Connolly and second by Capt Eugene Ebanks.

- Invoice No 206288 dated 6 March 2014 for the amount of \$82,123.21

Hon Bush would like his objections to be noted with regards to the Auditor General Invoices as his view on the OAG Invoices remains unchanged.

The above invoice was **approved** by a motion moved by Mr Winston Connolly and second by Capt Eugene Ebanks.

6. Review and Approval of the PAC Reports to be Tabled

- a) Management of Air Ambulance Services: Public Interest Report - June 2013
- b) Restoring Financial Accountability: A Time for Change? - June 2013
- c) Financial and Performance Reporting: Statutory Authorities and Government Companies for the year ending 30 June 2011
- d) Management of Major Capital Projects – June 2012
- e) Consultation on our Future Performance Audit Programme – June 2013

The Chairman discussed the above named PAC Reports with the Committee and advised that he had prepared Section 9 of the Reports. Discussions ensued on the Reports and the Committee agreed to the insertion of the recommendation section in each respective Report:

- a) Management of Air Ambulance Services: Public Interest Report - June 2013

9.02 *The Committee noted that while the report does not make any specific recommendations, it does identify a number of shortcomings in the management of air ambulance services by CINICO and CLAA, specifically:*

- *There was no tendering process for an air ambulance Third Party Arrangement (TPA);*
- *Air ambulance procedures were not properly documented;*
- *No contract with the air ambulance broker for procuring air ambulances;*
- *No license or authorization for ground handling services for air ambulances at the airport; and*
- *The air ambulance broker is not operating with a valid license.*

9.03 *The Committee agrees with the conclusions as found in paragraphs 24 and 25 of the Report. The operations relating to the provision, costs and oversight of air ambulance services have not been managed effectively, resulting in uncertain value-for-money for services solicited through the air ambulance broker and that the practice of utilizing the services of a non-contracted air ambulance*

broker, if continued, represents an unmanaged risk to the Government in the event of a catastrophic incident because of the lack of prudent management of public resources.

9.04 While the Committee acknowledges that these practices and procedures have existed from the commencement of the air ambulance service, the Committee strongly recommends that CINICO and the CLAA take immediate steps to address the recommendations of this Public Interest Report.

b) Restoring Financial Accountability: A Time for Change? – June 2013

9.02 The Committee noted and accepts the recommendations made in this Report, namely to:

- Simplify the Financial and Performance Reporting Framework;*
- Restructure Government Financial Functions;*
- Strengthen Accountability;*
- Improved Transparency for Financial Information and Transactions; and*
- Financial Accounting Systems need to be improved.*

9.03 The Committee also noted and accepts the primary recommendation of this report that Government is to immediately commence a far reaching and comprehensive review of the Public Management and Finance Law ("PMFL") and seriously consider what kind of financial management, performance management and accountability reporting framework it needs, and the organisational structure it would require to deliver it effectively and efficiently.

9.04 The Committee recommends that Government, as a matter of priority, undertake a comprehensive review of the PMFL and make the changes needed to ensure that the framework will:

- a) enhance accountability and transparency;*
- b) support more effective decision-making;*
- c) reduce the bureaucratic burden and generate efficiencies;*
- d) achieve better results for the use of public resources and ultimately; and*
- e) increase public trust in Government.*

The Committee acknowledges that continuing efforts are being made to address the issues identified by the Auditor General. There now exists a Committee appointed by Cabinet and chaired by the Chairman of this Committee which is charged with undertaking a review of the Public Management and Finance Law and reporting its recommendations to the Minister of Finance.

c) Financial and Performance Reporting: Statutory Authorities and Government Companies for the year ending 30 June 2011

9.02 The Committee notes with concern that while the Auditor General continues to see improvements in the quality and timeliness of the financial statements presented for the SAGCs, a number of smaller entities continue to struggle to present reliable and credible financial statements for audit. The Committee recommends that government take steps to remedy the situation. One potential solution is for these entities to enter into a shared service arrangement with other SAGCs or government entities to avail them of the expertise needed to ensure the quality and timeliness of financial statements.

9.03 The Committee also notes with concern the number of other significant issues that have come to the attention of the Auditor General during the course of his audits and identified as common themes across the audits, namely:

- Governance – board members are unclear about the role of boards and management; and*
- Internal control weaknesses.*

9.04 *The Committee notes the Auditor General's observation that many of these issues are remediable if the organization spent the time necessary to ensure their internal control framework was properly implemented and operating effectively. The Committee recommends that management of the SAGCs develop a practical and realistic plan to address the weaknesses identified to ensure that their internal control framework is fully implemented and functioning as intended.*

d) Management of Major Capital Projects – June 2012

9.02 *The Committee noted and agreed with the recommendations of the Report, namely:*

- a) Government should ensure that there is clear guidance on the roles and responsibilities for both the political and administrative aspects of the delivery of major capital projects, that guidance adheres to legislative requirements, and that the guidance is followed in practice;*
- b) Government agencies should produce business cases for all proposed major capital projects that clearly outline management's considerations concerning the business objectives to be achieved, the various options for delivery and the full life time cost associated with each option. A business case should be an important part of Cabinet's consideration of whether to approve a proposed major capital project based on affordability and alignment with policy objectives;*
- c) The Public Sector Investment Committee should ensure that all Government agencies are made aware of the Committee's expectations for future major capital submissions and its review process;*
- d) The Government should ensure that proposed major capital projects have clearly established objectives and definition of need, which are the basis for realistic estimates of project cost, at the time it makes its decision to proceed with project development and when it makes the decision to proceed with investment;*
- e) The Government should establish a center of excellence for the management of major capital projects which would be responsible for establishing standardised policies and practices for capital project management, to employ and train project managers, and to be responsible to manage all Government major capital projects;*
- f) Government agencies should not allow work to commence on major capital projects without a contract or some other appropriate legal instrument to be in place so that the interests of the Cayman Islands Government are protected;*
- g) The Government should ensure that for future major capital projects total costs are maintained and monitored from a legislated budget perspective and appropriate project costing systems are available to that agency and project managers can maintain control over project activity; and*
- h) The Government should move to ensure that the Government Administration Building is more fully occupied so that the benefits planned with its construction are more fully realized.*

9.03 *The Committee noted and agreed with the response of the Deputy Governor with regard to recommendations 1 to 5 that legislation is needed to prescribe the roles and responsibilities for the entire project cycle and to complement and support these with appropriate administrative guidance, systems, resources and support. The Committee recommends that Government develop an action plan to implement the appropriate legislation as quickly as possible.*

9.04 *The Committee also recommends that the Government prepares an action plan to implement recommendations 6 to 8 as soon as possible.*

The Committee is mindful that care should be taken to ensure that the recommendations do not result in increased bureaucracy and significant cost to government.

e) Consultation on our Future Performance Audit Programme – June 2013

The Auditor General indicated that this was Consultation Report and did not require going before the House to be Tabled. The Chairman agreed and recommend removing this Report from the list of PAC Reports that are to be Tabled.

With the Committee's approval, the Chairman agreed to remove the above named PAC Report by a motion **moved** by Hon McKeeva Bush and second by Mr Winston Connolly.

The above PAC Reports as amended was **approved** by the Committee on a motion **moved** by Mr Winston Connolly and seconded by Mr Joey Hew.

7. **Any Other Business**

The Committee discussed how they can implement the change to increase the Members of the Committee. The Committee strongly suggested that the increase in Members would be beneficial to PAC however the Standing Orders would have to be amended before this can be done. This in itself will be a process and a delay to meet that goal.

With regards to the public hearings of the PAC, Mr Connolly queried on the action plan the Committee purpose after a hearing. The Chairman noted that there is a 90-120 day time line for Government to respond to the Reports once they have been laid on the Table. He therefore suggest that PAC bring back the witnesses so that they can provide the Committee with updates or results of the recommendations and or undertakings. The Committee agreed to hold them accountable but this should be done in a timely manner.

8. **Scheduling of Next Meeting**

The Committee agreed to hold PAC public meetings with Witnesses on Wednesday, 7th May 2014 commencing 9:00am for a full day and Thursday, 8th May 2014 for half a day commencing at 9:00am.

The meeting that was set for tomorrow 16th April according to the dates set out by the Chairman's meeting list has been cancelled.

9. **Adjournment**

There being no further business, the Chairman adjourned the meeting at 11:53am.