



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

Restoring Financial Accountability: A Time for Change? –

June 2013

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 RESTORING FINANCIAL ACCOUNTABILITY: A TIME FOR
CHANGE? – JUNE 2013**

SUMMARY REPORT

1. REFERENCE

The Standing Public Accounts Committee of the Cayman Islands Legislative Assembly, established under Standing Order 77, met to consider *Report of the Office of the Auditor General on Restoring Financial Accountability: A Time for Change? – June 2013* 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 Report of the Office of the Auditor General on Restoring Financial Accountability: A Time for Change? – June 2013*

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, JP, MLA – Member

Capt Eugene Ebanks, MLA – Member

4. MEETINGS OF THE COMMITTEE

The Committee reviewed the Minutes of four (4) meetings held by the Committee, to consider this Report:

- (i) Thursday, 11th July 2013
- (ii) Friday, 27th September 2013 (*with Witnesses in Chamber*)

(iii) Thursday, 16th January 2014

(iv) 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
- Mrs Sonia McLaughlin, Deputy Financial Secretary/Chief Officer – 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 persons appeared before the Committee to give evidence:

- Hon Franz Manderson, Deputy Governor – Deputy Governor's Office
- Mr Peter Gough, Advisor to the Deputy Governor – Deputy Governor's Office
- Hon Ken Jefferson, Financial Secretary – Ministry of Finance and Economic Development
- Mrs Sonia McLaughlin, Deputy Financial Secretary/ Chief Officer – Ministry of Finance and Economic Development
- Ms Anne Owens, Senior Assistant Financial Secretary – Ministry of Finance and Economic Development
- Mr Michael Nixon, Senior Assistant Financial Secretary – Ministry of Finance and Economic Development

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) that its 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 Restoring Financial Accountability: A Time for Change? – June 2013 that was carried out in Grand Cayman. The Report builds on previous reporting and highlights the key issues that the Auditor General believes the Government should address in respect of strengthening the financial function, the development of financial and performance reporting to ensure that effective accountability is restored and maintained.

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.

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

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 McKeever 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 McKeever 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 bearing 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 Auditor 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*
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 McKeeva Bush, 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 – 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 fulfill 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 McKeever 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 McKeever 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.