



The Government Minute

The Government's Responses to the Report of the Standing Public Accounts Committee on the Report of the Office of the Auditor General on the *Financial Reporting of the Cayman Islands Government General Report 2015 and 2016 Financial Audits - December 2017*

June 2019

Table of Contents

Abbreviations.....	1
Background	2
Comments and Recommendations of the PAC on the Entire Public Sector or EPS (Disclaimed Opinion) ...	3
The Government's Response	3
Comments and Recommendations of the PAC on the Judicial Administration (Qualified Opinion).....	4
The Government's Response	4
Comments and Recommendations of the PAC on the Cayman National Cultural Foundation (Qualified Opinion)	5
The Government's Response	5
Comments and Recommendations of the PAC on the Maritime Authority of the Cayman Islands (Qualified Opinion).....	6
The Government's Response	6

Abbreviations

CEO	Chief Executive Officer
CO	Chief Officer
COMMITTEE	Public Accounts Committee
CINICO	Cayman Islands National Insurance Company
CINM	Cayman Islands National Museum
CNCF	Cayman National Cultural Foundation
EPS	Entire Public Sector
IAS	International Accounting Standards
MACI	Maritime Authority of the Cayman Islands
NGCI	National Gallery of the Cayman Islands
OAG	Office of the Auditor General
PAC	Public Accounts Committee
PMFL	Public Management and Finance Law (2018 Revision)
PSPB	Public Service Pensions Board
SAGCS	Statutory Authorities and Government Companies

Background

Section 77(7) of the Legislative Assembly Standing Orders (2006 Revision) states that the Government Minute shall be laid on the Table of the House within three months of laying of the report of the Standing Public Accounts Committee and of the report of the Auditor General to which it relates.

This Government Minute constitutes the Government's response to the Report of the Standing Public Accounts Committee on the Report of the Auditor General on *Financial Reporting of the Cayman Islands Government General Report 2015 and 2016 Financial Audits - December 2017*.

Comments and Recommendations of the PAC on the Entire Public Sector or EPS (Disclaimed Opinion)

1. The Committee noted the numerous issues that contributed to the disclaimed opinion and thought that several of these matters required a policy discussion which needed to take place in another forum. The Committee endorsed all the recommendations of the Auditor General contained in the report entitled "Financial Reporting of the Cayman Islands Government: General Report 2015 & 2016" and additionally recommended that:
 - a. A national debate be held, started first in the Legislative Assembly, about retirement including the age of retirement, post-retirement health care, pension and other benefits for Caymanians and especially Civil Servants (to address the issue of the ongoing liability for post-retirement benefits and pension obligations for Civil Servants and the underfunded position on the public sector pension funds) and whether a national health insurance scheme should be considered and/or changes made to the way CINICO charges its premiums to different groups to better spread the risks and costs.
 - b. The Government consider legislative changes that separate the pension fund assets out from the general PSPB accounts and that legislation puts these assets beyond the direct control or influence of the Government (to remove the qualification point on the non-consolidation of PSPB).
 - c. For those SAGCS incurring losses that the Government reconsiders its policy position on the nature of their business noting that in many cases the level of losses incurred were growing faster than the increase in revenues and so the financial outlook continued to be bleak.

The Government's Response

The Government notes the recommendations of the PAC and would like to report that it is currently considering a number of potential options that are geared towards limiting the post-retirement healthcare liability.

The Government continues to contribute to the past service pension liability at the rates recommended by the tri-annual actuarial valuations. For example, the 2019 Budget appropriates \$11.14 million towards the liability and the Government intends to seek the Legislative Assembly's approval for supplementary funding to pay a further \$4.0 million into the pension funds in order to be nearer to the contribution rate as recommended in the 1 January 2017 actuarial pension actuarial report.

The Ministry of Finance has held discussions with the OAG regarding the legislative changes that are required to separate the pension fund assets from the general PSPB accounts. The

OAG reported that, despite a change in legislation, the Government will still have direct control based on the fact that Government will indefinitely retain the authority to change legislation. The Government therefore has to conduct further research on the appropriate options in order to resolve this issue.

The Government is not entirely clear what the Committee intended when it recommends that Government " reconsiders its policy position on the nature of their (i.e. SAGCS) business..."

The Government assumes that the Committee is referring in its recommendation, to the scope of SAGCS' operations.

At present and for the foreseeable future, the Government does not plan to undertake a wholesale review of the scope of all SAGCS operations but, will do so on an individual SAGC basis. For example, the Government recognizes that efficiencies may be gained from improving the operations of CINICO and as such, by 31 May 2019, the Government will commence the procurement of consultancy services to review the operations of CINICO including the option of expanding its products and services and CINICO being the first line of insurance for residents of the Islands.

Comments and Recommendations of the PAC on the Judicial Administration (Qualified Opinion)

1. The Government re-consider the reintroduction of the Preliminary Inquiry process as a potential to improve efficiency in Judicial Administration.
2. It was noted that the entity now believes it had a fully complete fixed asset register which they believe will mean that the opening and closing fixed asset balances will be capable of being relied upon by the auditors during their 2016/17 audit which should result in a clean opinion.
3. The PAC recommends that the Government re-consider the reintroduction of the Preliminary Inquiry process as a potential measure to improve efficiency, and as a cost saving measure.

The Government's Response

The Judicial Administration's updated Fixed Asset Register resulted in an unmodified opinion for the 2016/17 financial statements as the auditors were able to rely upon the opening and closing balances. Judicial Administration, however, recognises that the entity should strive to implement current best practice standards, and therefore continues its efforts to enhance the quality of the Register.

Efficiencies in the Preliminary Inquiry process have been in place for a number of years. At the time of this enquiry, the changes were reflected in the Criminal Procedure Code (2017

Revision), particularly in sections 84, 85 and 88 of the Law. Section 84 of the Law allows the Summary Court to Commit a person for trial or transmit a matter for hearing. The effect of these changes is that Long Form Preliminaries no longer exist whereby witnesses are called to give live evidence. There is now a 2 step process.

In summary, section 85(A) of the Law eliminates the need for a preliminary enquiry in respect of Class A (very serious offences only dealt with in the Grand Court) offences. In such circumstances the Summary Court does not deal with the matter, it is immediately transmitted by the Magistrate to the Grand Court. The section also allows for Class B offences (lesser offences that may be tried in either the Summary or Grand court) related to the Class A offence to also be escalated to the Grand Court, the effect of which eliminates cases pending in both the Summary and Grand Court, but rather for the matters to be dealt with before one court, namely the Grand court. In the Grand Court when the case is transmitted, the defendant has the right to make an application for dismissal.

In summary s.88 of the Law which deals with committal of Class B offences, the preliminary inquiry is conducted on the papers. I considering the statements, section 88(3) specifically prohibits the Magistrate from calling witnesses or taking oral evidence or statements from the accused. All considerations are conducted on the papers. This amendment to the Law has also brought significant efficiencies to the process.

It is also noted that the Practice Direction 5/2015 which addresses Criminal Case Management also directs that the Defence shall notify the Prosecution if the Preliminary Inquiry is to be contested at least 7 days before it is due to be heard.

Comments and Recommendations of the PAC on the Cayman National Cultural Foundation (Qualified Opinion)

1. The PAC supports the OAG recommendation that the Cayman National Cultural Foundation should think about whether they need to employ a qualified book keeper like the other two entities have done.
2. CINM, CNCF and NGCI were all qualified for the same reason; the PAC supports the recommendations of the OAG and is happy to report that all three entities are on the right track to implement the OAG recommendation.

The Government's Response

The recommendation that CNCF hires a qualified bookkeeper will undoubtedly relieve the Managing Director of a time consuming responsibility. For the record, CNCF received unqualified audits for each of the years between 2011 and 2015. Qualified opinions in 2016 and 2017 were as a result of a contingent liability unrelated to the fairness and completeness of the financial statements.

Comments and Recommendations of the PAC on the Maritime Authority of the Cayman Islands (Qualified Opinion)

1. It was noted that the entity was taking steps to remove their qualification on the post-retirement medical liability by having a valuation done to make a provision for the liability in its 2016/17 financial statements.
2. The PAC is concerned that under the Global Director of Operations, Mr. Osbert Francis who is responsible for the accounts that there is no professionally qualified accountant to prepare and/or sign off on the financial statements; and recommends that this be rectified urgently.
3. The PAC recommends that more emphasis be placed on controlling expenditure as while during the last five years there is evidence of revenue growth, there appears to be an equal growth in expenditure.
4. The PAC is concerned with the information provided during the questioning of witness Mr. Osbert Francis, the Global Director of Operations of the October 2017 changes to the organization structure creating Global Director with higher salaries than what existed. The PAC recommends that the ministry responsible ensure that the board of MACI and the CEO clearly understand the provisions of the Public Authority Law.

The Government's Response

MACI has had the IAS19 report on Post-Retirement Healthcare completed by Mercer through the Public Service Pension Board. Subsequently, the liability has been recognised on MACI's financials and the previous three years (2014/2015, 2015/2016 and 2016/2017) restated to reflect this recognition. MACI has implemented completing the IAS19 report on an annual basis to accurately reflect this figure on annual financial statements.

Mr. Osbert Francis has a Bachelors in Business Administration – Accounting Degree and he prepares MACI's monthly Management Reports for the Board of Directors which is chaired by Mr. Phillip Barnes, a trained accountant. The monthly Management Reports are reviewed by Mr. Kenrick Ebanks, Global Director Commercial Services – a trained accountant - prior to submission to the Board. MACI's annual Financial Statements completed by Mr. Francis are submitted to MACI's Audit & Finance Committee for review and approval prior to submission to the Board and subsequently the Auditors. Mr. Barnes, Chairman of the Board attends these meetings. The annual Financials are audited by the Office of the Auditor General and for the period ending December 31, 2017, MACI received an unmodified opinion on its Annual Financial Statements Audit from the Office of the Auditor General.

MACI continues to deliver services on behalf of the Cayman Islands Government through its Purchase Agreement by subsidising the difference between the going market rate for these services and the rate provided by the Cayman Islands Government in said agreement. Despite

this, MACI's revenues continue to grow as they explore new markets and expand their reach, particularly in the Commercial sector of Vessel registration. MACI has adjusted pricing structures to be competitive in this sector while expending to break into new geographical markets. For the period ending December 31st 2018, MACI recognised an increase in Revenue over December 31st 2017 of CI\$496,078 and a reduction in Expenses of CI\$643,989 (These numbers are unaudited).

MACI underwent an Internal Audit review of senior Level positions for quarters 1 through 3 of 2018. The purpose of the review was to provide an independent assessment as to whether the appointment process for Senior Level positions including the Global Director positions were in compliance with the Public Authorities Law. MACI was found to be in compliance with the Law by the Internal Audit Service, Office of the Deputy Governor.

