**The Government Minute**

The Government's Responses to the Reports of the Standing Public Accounts Committee on the Reports of the Auditor General

May 2022

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**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 Reports of the Standing Public Accounts Committee tabled in the Legislative Assembly on 15 07 2021 on the following Reports prepared by the Auditor General:

1. Owen Roberts International Airport (ORIA) Terminal Redevelopment Project – Progress Update as at August 2018 (January 2019).
2. Financial Reporting of the Cayman Islands Government: General Report 2019 (December 2020); and
3. Improving Financial Accountability & Transparency: Budgeting (December 2020).

**Reports of the Office of the Auditor General**

The Public Account Committee ("the Committee") noted that "on critical analysis of witness testimonies, the PAC endorses and strongly supports the recommendations of the Auditor General and her team, noting also that management within the Civil Service has agreed with the Office of the Auditor General's recommendations."

- No recommendations were made as part of the PAC Report on the OAG report entitled *"Owen Roberts International Airport (ORIA) Terminal Redevelopment Project – Progress Update as at August 2018 (January 2019)".* No Government updates are therefore provided as part of this Minute.
- General recommendations were made as part of the PAC report on the OAG report entitled *"Financial Reporting of the Cayman Islands Government: General Report 2019 (December 2020)".* Government updates are therefore provided as part of this Minute.
- Specific recommendations were made as part of the PAC report on the OAG report entitled *"Improving Financial Accountability & Transparency: Budgeting" (December 2020).* Government updates are therefore provided as part of this Minute.

## *1. Owen Roberts International Airport (ORIA) Terminal Redevelopment Project – Progress Update as at August 2018 (January 2019).*

No recommendations made.

## *2. Financial Reporting of the Cayman Islands Government: General Report 2019 (December 2020)*

General recommendations made. These can be found in the conclusion and recommendations on pages 21-22.

Ministry of Finance & Economic Development

**General Recommendation 1. "The most significant accountability and efficiency improvements that I recommend are: 1) the timely laying of annual reports including the financial statements and audit opinions in the House of Parliament and then 2) the publication on the public body and Parliament websites to improve accountability and 3) stronger functional leadership being provided to all public bodies through the Ministry of Finance.**

***Government Update (March 2022):***

The Ministry of Finance and Economic Development continues to seek the assistance of Chief Officers to ensure that all outstanding annual reports are Tabled in Parliament in a timely manner.

The Ministry of Finance and Economic Development continues to remind Chief Officers of their responsibility under Sections 44 and 52 of the Public Management and Finance Act, to Table Annual Reports, which are under their responsibility, in a timely manner. The reminder also notes the requirement (under Section 83 of the Act) to post the Annual Reports to their entities' websites once they have been Tabled in Parliament.

In recent times, reminders were sent on 13 June 2019, 21 January 2020 and 17 February 2022 and in March 2022. Additional reminders will be sent in April and May 2022 for outstanding Annual Reports to be Tabled during the upcoming Meeting of Parliament.

The significance of May 2022 is that the audits on the Annual Reports and Financial Statements for the 2021 Financial Year are required by statute to be completed by 30 April 2022. Reminders were sent out on 17 February 2022 and March 2022, and additional reminders will be sent out in April and May of 2022 as these Reports must go through Cabinet in advance of the May 2022 date in order to be Tabled in Parliament by May 2022 – the first month possible.

The Ministry of Finance continues to strengthen its leadership function by improving accountability and timeliness of delivery from CFOs, the Ministry of Finance issued an updated Monthly Checklist on 1 Feb 2022 that requires each Chief Officer's sign-off by the 5th working day after month-end and submission to the Accountant General. Additionally, the Monthly Financial Report, which is submitted to Cabinet, now includes a section that states which Entities submitted their checklist (for Ministries/Portfolios/Offices) and financial results (SAGCs and MPOs). Lastly, all M/P/O are required to submit a monthly report to the Entire Public Sector Reporting Unit for inclusion in the Monthly Financial Report to Cabinet.

**General Recommendation 2. "In addition to these recommendations, there remains some matters which still impede the production of relevant and reliable financial statements and steps should be taken to remove these impediments to further improve the timeliness, quality and usefulness of the financial statements: untimely submission of supporting schedules causing issues with achieving the statutory audit deadline; and non-compliance with laws and regulations.**

***Government Update (March 2022):***

The Ministry of Finance, along with the Deputy Governor, will remind CFOs and Chief Officers that their Annual Financial Statements submission is incomplete and non-compliant unless high quality supporting schedules are submitted at the same time as the Financial Statements.

## *3. Improving Financial Accountability & Transparency: Budgeting (December 2020)*

Ministry of Finance & Economic Development

**Recommendation 1 - The Government should amend the budgeting framework to shift the focus to an outcomes–based approach. In doing this, it should ensure that:**

**(a) The Government's Strategic Broad Outcomes and specific outcomes in the Strategic Policy Statement are clearly aligned.**

**(b) Specific outcomes in the Strategic Policy Statement are clearly focused on outcomes rather than activities, projects or outputs.**

**(c) Success measures for Strategic Broad Outcomes and specific outcomes are identified that allow for performance monitoring and reporting on their achievement.**

**(d) Public entities' strategic ownership goals clearly link with Government's Strategic Broad Outcomes and specific outcomes.**

(e) **Budgets clearly align with the Strategic Broad Outcomes and specific outcomes.**

(f) **The Plan & Estimates clearly demonstrates to decision makers the subsidies to Statutory Authorities and Government Companies and budgets for demand–led services and how these will contribute to the Strategic Broad Outcomes.**

**Responsibility: Financial Secretary and Accountant General**
**Date of Planned implementation:** *March 2023*

***Government Update (March 2022):***

The Ministry has revised the delivery date of Outcome Budgeting and the new target date to deliver this is 28 February 2025. Progress to date includes:

• The Steering Committee for Modernizing the Government's Budget and Reporting Framework has held four meetings so far this year (2022). Coming out of these meetings, an RFP (for the Outline Business Case) has been prepared and will be issued 31 May 2022 with a planned execution of the contract by 31 August 2022.

• It is envisaged that the reporting against agreed outputs and outcomes will be reinstated in the Public Management and Finance Act as part of a modernised Outcome Performance Budgeting and Reporting Framework.

**Recommendation 2 - The Government should amend the budgeting (and financial reporting) framework to remove the requirement to budget and account for executive and entity transactions separately.**

**Responsibility: Financial Secretary and Accountant General**
**Date of Planned implementation:** *March 2023*

***Government Update (March 2022):***

Management has the legislative changes underway to merge the executive and entity accounting.

The Ministry has revised the delivery date of Outcome Budgeting and the new target date to deliver this is 28 February 2025. Progress to date includes:

• The Steering Committee for Modernizing the Government's Budget and Reporting Framework has held four meetings so far this year (2022). Coming out of these meetings, an RFP (for the Outline Business Case) has been prepared and will be issued 31 May 2022 with a planned execution of the contract by 31 August 2022.

• The modernised Budget and Reporting frameworks would remove the requirement to budget and account for executive and entity transactions separately.

**Recommendation 3 - The Ministry of Finance and Economic Development should update and simplify the process for preparing and submitting budgets by:**

**(a) Amending the budget templates to ensure that information needs to be entered only once to reduce duplication of effort and the risk of errors.**

**(b) Issuing templates well in advance of the date budget submissions are due.**

**(c) Providing sufficient guidance and training on how to complete budget templates.**

**Responsibility: Financial Secretary and Accountant General**

**Date of Planned implementation:** *March 2023*

***Government Update (March 2022):***

Management is working towards the March 2023 date. However, this is only a temporary measure as Management plans to replace the current manual budget process with a suitable accounting software that would meet the needs to the new framework being developed. This will improve the accuracy and efficiency of budget preparation.

**Recommendation 4 - The Government should convene the Performance Budgeting and Reporting Working Group as soon as possible to start the review and simplification of the budget framework and process. In doing this, it should also:**

**(a) Widen its remit to cover all of the recommendations made in this report.**

**(b) Ensure that the Group is supported by an operational task force to carry out the work and provide proposals for consideration.**

**(c) Set out a plan for each of the areas to be covered to ensure that that they are completed within a reasonable timescale and any inter-dependencies are adequately considered.**

**Responsibility: Financial Secretary and Accountant General**

**Date of Planned implementation:** *March 2023*

***Government Update (March 2022):***

The Ministry has revised the delivery date of the Modernised Budget Framework until 28 February 2025. Progress to date includes:

- The Steering Committee for Modernizing the Government's Budget and Reporting Framework (formerly Performance Budgeting and Reporting Working Group) has held four meetings so far this year (2022). Coming out of these meetings, an RFP (for the Outline Business Case) has been prepared and will be issued 31 May 2022 with a planned execution of the contract by 31 August 2022.

- The Steering Committee plans to include all recommendations made in the OAG's numerous reports. The RFP above seeks the assistance of a consultant to carry out the mondernisation process; part of that process will be to include all OAG recommendations.

**Recommendation 5 - The Government should ensure that the final budgets that are approved by the Parliament are made publicly available as soon as possible, and no more than month after approval to improve transparency.**

**Responsibility: Financial Secretary and Accountant General**

**Date of Planned implementation:** Management previously reported: *While it is already the practice to share the budget documents that are tabled on Budget Day, going forward the Ministry will ensure the final budget approved by Parliament is made publically available as soon as possible after being approved by Parliament.*

***Government Update (March 2022):***

The Ministry of Finance is finalising the signed 2022 and 2023 Budget documents presently. The Ministry undertakes to ensure that, once approved, the budgets will be published within one month of the approvals.

**Recommendation 6 - The Government should reduce the number of output metrics in budget documents, specifically in entity Budget Statements and Statutory Authorities and Government Companies' Purchase Agreements.**

**Responsibility: Financial Secretary and Accountant General**

**Date of Planned implementation:** *March 202*

***Government Update (March 2022):***

The Ministry has revised the delivery date of the Modernised Budget Framework until 28 February 2025. Progress to date includes:

- The Steering Committee for Modernizing the Government's Budget and Reporting Framework (formerly Performance Budgeting and Reporting Working Group) has held four meetings so far this year (2022). Coming out of these meetings, an RFP (for the Outline Business Case) has been prepared and will be issued 31 May 2022 with a planned execution of the contract by 31 August 2022.
- With the change to Outcome Budgeting and Reporting, it is envisaged that the budget documents will be substantially more condensed than their current form.

**Recommendation 7 - The Government should reduce the volume of information in budget documents by:**

**(a) Removing the requirement for forecast financial statements in the Budget Statements and Ownership Agreements and limit this to high–level information that is essential for budget scrutiny and transparency.**

**(b) Presenting forecast financial statements differently in the Plan and Estimates to reduce the volume of pages and duplicated information.**

**Responsibility: Financial Secretary and Accountant General**

**Date of Planned implementation:** *March 2023*

***Government Update (March 2022):***

The Ministry of Finance will be condensing all budget documents as part of Modernising the Budget and Reporting frameworks, which is currently underway. Condensing the Budget documents will include removing the financial Statements in the Budget Statements and requiring only summarized financial statements from Ownership Agreements – complete removal of financials from Ownership Agreements is not practical as Cabinet must have knowledge of the impact/results of their approval. Additionally, the financial statements in the Plan and Estimates will be condensed in line with the recommendations made on pages 31 and 32 of the Auditor General's Report "Improving Financial Accountability and Transparency".

**Recommendation 8 - The Government should ensure that inflation is factored into budget estimates for recurring operational expenditure and that this is made clear to budget preparers, users and decision–makers.**

**Responsibility: Ministry of Finance – based on information received from other Government agencies.**

**Date of Planned implementation:** ***Management previously reported:*** *Currently in place (and has been done historically). Continuous Improvement in communication is on-going.*

***Government Update (March 2022):***

Management has always factored in inflation (and continues to do so) as a starting point for the budget preparation process. This starting point gives Ministries/Portfolios/Offices a baseline for budget preparation, and this is normally communicated to preparers, users and decision-makers as part of the Budget Circular. However, there are increases in expenditure, reprioritization and additional services being added beyond the baseline. With these movements to the budget, the overall affordability must be considered and Ministries/Portfolios/Offices must do their best to find savings and efficiencies in order to make the overall budget compliant with the principles of responsible financial management.

<u>Portfolio of the Civil Service</u>

**<u>Recommendation 9</u> - The Government should develop a pay strategy that sets out if and when pay awards will be given and where appropriate these are factored into budget estimates.**

**<u>Responsibility</u>: Chief Officer, Portfolio of the Civil Service (PoCS)**

**<u>Date of Planned implementation</u>:** *December 2021.*

***Government Update (May 2022):***

The PoCS commissioned a Review of Pay and Reward practices which was temporarily paused in 2020 as a result of shifting priorities to respond to the global pandemic. Related work resumed in late 2020 and the Pay and Reward Review was completed in 2021. This work is now informing CIG' high-level pay and rewards strategy and operational plans over the medium term. The Review identifies three pillars of CIG's Pay and Reward philosophy; namely that CIG commits that pay practices will be transparent, fair and enabling of the Civil Service's mandate to deliver the Government's strategic priorities, continuously improve performance, and realise its vision to become a World-Class Civil Service.

In 2022, which is the first year of a 2-year budgetary period, the PoCS has reviewed economic forecasts and CIG's early fiscal performance. Within this context, the PoCS has formulated pay proposals for 2022-2023 which are informed by economic forecasts and are compliant with CIG's existing 2022-23 approved global HR Budget for the core civil service. These pay proposals address consolidated basic pay increases (e.g. Cost of Living Adjustments and Pay Progression) and variable pay such as one-off honorariums.

Additionally, as recommended in the review, the PoCS will introduce Total Reward Statements for each staff member that provides greater transparency of the total value of working within the Civil Service, including the monetary value of passive benefits such as health insurance.

The work to produce a 2-year pay proposal, will be replicated in 2023, in order to recommend pay proposal as part of the 2024 and 2025 budget process.

**Recommendation 10 - The Government should improve its budget estimates for recurring operational expenditure by factoring in macro–economic forecasts that may affect planned service delivery levels, and the effects of new laws and regulations. It should state clearly in the budget documents what factors have been used in their preparation, including any requirement for efficiency savings to be made.**

**Responsibility: All agencies in Government – but the Ministry of Finance to place such matters in budget documentation.**

**Date of Planned implementation:** ***Management Previously reported:*** *Currently in place (and has been done historically). Continuous Improvement is on-going.*

***Government Update (March 2022):***

As noted above, Government continues with this practice.

**Recommendation 11 - The Ministry of Finance and Economic Development should ensure that the unit costs of similar outputs are costed consistently and core government entities should be able to explain any significant variances.**

**Responsibility: Financial Secretary and Accountant General**

**Date of Planned implementation:** *March 2023*

***Government Update (March 2022):***

Similar outputs are currently costed consistently as it relates to the costing process; however, given the diversity of the subject areas and responsibilities of the various Ministries/Portfolios/Offices, there is no guarantee that actual cost of an output will be in line with another Ministry/Portfolio/Office.

To ensure this recommendation is addressed in the Modernised Budget process, management will consider this as part of the review.

**Recommendation 12 - The Government should ensure that estimates of coercive revenues are regularly reviewed and updated, as appropriate, based on up–to–date information.**

**Responsibility: Accountant General**

**Date of Planned implementation:** ***Management Previously reported:*** *Currently in place and continuous improvements ongoing.*

***Government Update (March 2022):***

Currently in place. The Revenue Manager reviews and updates coercive revenue on a quarterly basis at a minimum, and at other times on an as needed basis for budgets and supplemental budgets.

**Recommendation 13 - The Government should ensure that all 'exceptional circumstances' approvals by Cabinet clearly satisfy the PMFL definition.**

**Responsibility: Financial Secretary and Accountant General**

**Date of Planned implementation:** *March 2023*

***Government Update (March 2022):***

The Government has implemented this recommendation. As demonstrated by the recent Finance Committee, the current Government will be utilizing Section 12 of the PMFA to seek additional funding when needed. This means exceptional circumstances (Section 11(5) of the PMFA) will be reserved for truly exceptional circumstances.

**Recommendation 14 - The Government should ensure that the Parliament is informed about all budget changes that Cabinet has approved due to exceptional circumstances at the next sitting of the Parliament.**

**Responsibility:** Senior Assistant Financial Secretary

**Date of Planned implementation:** *Introduced in mid-2019*

***Government Update (March 2022):***

This recommendation has been implemented.

Office of the Deputy Governor

**Recommendation 15 - The Deputy Governor should discuss with the Parliament the introduction of a formal timetable of regular, scheduled meetings that includes dedicated time for scrutiny of original budgets and changes to these.**

**Responsibility: Deputy Governor to advise incoming Premier/Parliament**

**Date of Planned implementation:** *Next Administration, post the General Elections in May 2021*

***Government Update (March 2022):***

This recommendation has been implemented. The Deputy Governor has forwarded the recommendation to the Honourable Premier and the Honourable Speaker of the House in February 2022, for their attention and consideration, as this matter falls under the remit of the independent Parliament and not the Executive.

## Ministry of Finance & Economic Development

**Recommendation 16 - The Government should reduce the number of output groups and appropriation line items to allow more in–year virement of budgets and ensure that only those budget changes that relate to key government priorities go to the Parliament for approval.**

**Responsibility: Financial Secretary and Accountant General**

**Date of Planned implementation:** *March 2023 (to impact the 2024-2025 Budgets)*

***Latest Government Update (March 2022):***

Management is on target to deliver this in line with the above implementation date. Furthermore, Management will ensure this is carried through to the modernised budget process.

## Office of the Deputy Governor

**Recommendation 17 - The Deputy Governor should discuss with the Parliament arrangements for ensuring that the Supplementary Appropriations Bill is introduced in the Parliament in a timely manner, and at the latest within three months after the financial year end as required by legislation.**

**Responsibility: Deputy Governor to advise incoming Premier/Parliament**

**Date of Planned implementation:** *Next Administration, post the General Elections in May 2021*

***Latest Government Update (March 2022):***

This recommendation has been implemented. The Deputy Governor has forwarded the recommendation to the Honourable Premier and the Honourable Speaker of the House in February 2022, for their attention and consideration, as this matter falls under the remit of the independent Parliament and not the Executive.