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19 November 2012

Mr. Orrett Connor MBE, JP
Chief Officer
Cabinet Office
133 Elgin Avenue,
PO Box 105
Grand Cayman, KY1-9000
CAYMAN ISLANDS

Dear Mr. Connor:

SUBJECT: REPORT TO THOSE CHARGED WITH GOVERNANCE ON THE 2011/12 AUDIT

We have completed our audit of the 30 June 2012 financial statements of the Cabinet Office. International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Cabinet Office in sufficient time to enable appropriate action.

The enclosed report sets out for the consideration of those charged with governance those matters arising from the audit of the financial statements for 2011/12 that we consider are worthy of drawing to your attention.

If you have any questions on the contents of this letter please contact the Audit Principal, Mr. Patrick Smith at 244-3204, or myself at 244-3201.

Yours sincerely,

Alastair Swarbrick MA(Hons), CPFA
Auditor General

Copied to:

Neyka Webster – Acting Chief Financial Officer



CABINET OFFICE

Report to those charged with governance on the 2011/12 audit

19 November 2012

*Our independent work
promotes good governance,
transparency and
accountability in the use of
public funds*

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REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 30 June 2012 financial statements of the Cabinet Office. International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Cabinet Office in sufficient time to enable appropriate action. The matters we are required to communicate under ISAs include:
 - auditors responsibilities in relation to the audit
 - the overall scope and approach to the audit, including any expected limitations, or additional requirements
 - relationships that may bear on our independence, and the integrity and objectivity of our staff
 - expected modifications to the audit report
 - significant findings from our audit
2. This report sets out for the consideration of those charged with governance those matters arising from the audit of the financial statements for 2011/12 that we consider are worthy of drawing to your attention, so that you can consider them before the financial statements are approved and signed.
3. This report has been prepared for the sole use of those charged with governance and we accept no responsibility for its use by a third party. Under the Freedom of Information Act (2009) it is the policy of the Office of the Auditor General to release all audit reports upon request.

AUDITORS RESPONSIBILITIES IN RELATION TO THE AUDIT

AUDITOR'S RESPONSIBILITY UNDER INTERNATIONAL STANDARDS ON AUDITING

4. ISAs require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters and this report includes only those matters of interest which came to our attention as a result of the performance of our audit.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE:

5. Management's responsibilities are detailed in the engagement letter to which this engagement was subject. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS:

6. While we have no responsibility to perform any audit work on other information, including forward looking statements, containing audited financial statements, we read the other information contained in the Cabinet Office's annual report to consider whether such information is materially in consistent with information appearing in the financial statements or our knowledge of the operations of the Cabinet Office. We have not reviewed any other documents containing the Offices' audited financial statements.

CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT

7. Information on the integrity and objectivity of the Office of the Auditor General and audit staff, and the nature and scope of the audit, were outlined in the Engagement Letter presented to the Chief Officer on 07 August 2012, and follow the requirements of the ISAs. We are not aware of any impairment to our independence as auditors.

AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATIONS

8. We plan to issue a modified auditor's report on the 2012 financial statements (the proposed report is attached at Appendix 1). The basis of our qualified opinion is the lack of adequate records to support the beginning balances presented for property, plant and equipment.
9. A summary of audit adjustments made to the financial statements is attached in Appendix 2. The total net adjustments to the Net Worth amounted to \$2.5M. Appendix 3 summarizes those uncorrected misstatements identified by us during the audit that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
10. As part of the completion of our audit we seek written representations from management on aspects of the accounts and judgements and estimates made. We have requested that management provide us with representations shown at Appendix 5 in respect of our financial statement audit.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Cabinet Office's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Cabinet Office to make accounting estimates and judgments about accounting policies and financial statement disclosures. We are not aware of any areas where the significant accounting practices have changed from previous year or are not consistent with general industry practice. In addition we are not aware of any new or controversial accounting practices reflected in the Cabinet Office's financial statements.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES:

12. There were no matters which required management to make significant judgments or which required significant estimates.

GOING CONCERN DOUBTS:

13. As a result of our audit, we did not become aware of any material uncertainties related to events and conditions that may cast significant doubt on the Cabinet Office's ability to continue as a going concern.

MATERIAL WEAKNESSES IN INTERNAL CONTROL:

14. We identified a number of significant matters relating to internal controls as part of our audit. These include:

- Enhance monitoring of Property and Equipment
- Lack of proper Segregation of Duties – Role of Treasury
- Delay in the Recording of Transactions
- Lack of supporting documents
- Lack of proper year-end financial statement closure process
- Lack of policy to determine the nature and description of accounts
- Lack of proper controls for employee entitlements
- Lack of documented accounting policy for internally-developed and external software

- Lack of audit and IT committees

15. Details are included in Appendix 4 along with management's response.

FRAUD OR ILLEGAL ACTS:

16. Applicable auditing standards recognize that the primary responsibility for the prevention and detection of fraud and compliance with applicable laws and regulations rests with both those charged with governance of the entity and with management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, and fraud deterrence. They are also responsible for establishing and maintaining controls pertaining to the entity's objective of preparing financial statements that are presented fairly, in all material respects, in accordance with the applicable financial reporting framework and managing risks that may give rise to material misstatements in those financial statements. In exercising oversight responsibility, those charged with governance should consider the potential for management override of controls or other inappropriate influence over the financial reporting process.

17. As auditors, in planning and performing the audit, we are required to reduce audit risk to an acceptably low level, including the risk of undetected misstatements in the financial statements due to fraud. However, we cannot obtain absolute assurance that material misstatements in the financial statements will be detected because of such factors as the use of judgment, the use of testing, the inherent limitations of internal control and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature.

18. No fraud or illegal acts came to our attention as a result of our audit.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT:

19. No serious difficulties were encountered in the performance of our audit.

DISAGREEMENTS WITH MANAGEMENT:

20. We have had no disagreements with management resulting from our audit.

ANY OTHER SIGNIFICANT MATTERS

21. There were no other significant matters noted during audit.

ACKNOWLEDGEMENTS

22. We would like to express our thanks to the staff of the Cabinet Office for their help and assistance during the audit of this year's financial statements. This will enable us to provide an audit report within the agreed timetable.

APPENDIX 1 – PROPOSED AUDIT REPORT

Auditor General's Report

To the Cabinet Secretary and Members of the Legislative Assembly of the Cayman Islands

I have audited the accompanying financial statements for the Cabinet Office, which comprise the statement of financial position as at 30 June 2012 and the statement of financial performance, statement of changes in net worth and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 5-24 in accordance with the provisions of Section 60(1)(a) of the *Public Management and Finance Law (2012 Revision)*.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Financial Statements

My responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for Qualified Opinion for the Financial Statements

Property, plant and equipment

As the Cabinet Office did not maintain proper records on the beginning balance of fixed assets, I was unable to satisfy myself as to the completeness, existence and valuation of property, plant and equipment amounting to \$2.3M on the statement of financial position.

Qualified Opinion for the Financial Statements

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the completeness, existence and valuation of property, plant and equipment, the financial statements present fairly, in all material respects, the financial position of the Cabinet Office as of 30 June 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Alastair J. Swarbrick, MA (Hons), CPFA
Auditor General

Cayman Islands
31 October 2012

APPENDIX 2 – SUMMARY OF ADJUSTED DIFFERENCES

No.	Date	Name	Account	Debit	Credit
1	6/30/2012	Accruals	20150	5,215.42	
1	6/30/2012	Insurance - Liabilities	57278		(5,215.42)
		Reversal of incorrect accrual of insurance expense in June 2012 since it was prepaid in June 23 JUN1112-0405-011-GL			
2	6/30/2012	Accruals	20150	4,152.41	
2	6/30/2012	Electricity	51405		(2,357.07)
2	6/30/2012	Water	51420		(1,393.13)
2	6/30/2012	Telephone Charges	51430		(402.21)
		Reversal of accruals made- cannot find related invoices			
3	6/30/2012	Official Travel - Expense	50224	200.00	
3	6/30/2012	Food / Dietary Supplies	50602	107.55	
3	6/30/2012	Office Supplies - Consumables	51001	12.95	
3	6/30/2012	Janitorial Services	54306	355.00	
3	6/30/2012	Accruals	20150		(12.95)
3	6/30/2012	Accruals	20150		(200.00)
3	6/30/2012	Accruals	20150		(107.55)
3	6/30/2012	Accruals	20150		(355.00)
		To record accrual of expenses for 2011-12 re:inv 179476; OTEC-CC30/APR-04; 25-JUN-12 CASANOVA restaurant; 55329/55445			
4	6/30/2012	Prepayments - System Only	12008	42,742.30	
4	6/30/2012	Prepayments - System Only	12008	1,131.54	
4	6/30/2012	Accrued Prepayments	12009	96,088.48	
4	6/30/2012	Accumulated Surpluses - System Only	32001	9,419.81	
4	6/30/2012	Accumulated Surpluses - System Only	32001	6,649.30	
4	6/30/2012	Accumulated Surpluses - System Only	32001	894.00	
4	6/30/2012	Accumulated Surpluses - System Only	32001	1,966.56	
4	6/30/2012	Accumulated Surpluses - System Only	32001	24.68	
4	6/30/2012	Accumulated Surpluses - System Only	32001	1,012.58	
4	6/30/2012	Official Travel - Expense	50224	207.00	
4	6/30/2012	Prepayments - System Only	12008		(9,419.81)
4	6/30/2012	Prepayments - System Only	12008		(6,856.30)
4	6/30/2012	Prepayments - System Only	12008		(894.00)

4	6/30/2012	Prepayments - System Only	12008		(1,966.56)
4	6/30/2012	Prepayments - System Only	12008		(24.68)
4	6/30/2012	Prepayments - System Only	12008		(1,012.58)
4	6/30/2012	Prepayments - System Only	12008		(96,088.48)
4	6/30/2012	Accumulated Surpluses - System Only	32001		(42,742.30)
4	6/30/2012	Accumulated Surpluses - System Only	32001		(1,131.54)
		To correct prepayment accounts including write off over release of prepayments from previous period			
5	6/30/2012	Accumulated Surpluses - System Only	32001	3,431.26	
5	6/30/2012	Government Pension Contribution	50080	3,017.48	
5	6/30/2012	Pension Contribution - PPE Employ	50082	3,017.48	
5	6/30/2012	Telephone Charges	51430	745.38	
5	6/30/2012	Local Telephone Charges	51445	2,425.40	
5	6/30/2012	Data Communications Lines	51460	13,416.60	
5	6/30/2012	Bank Charges	54227	288.63	
5	6/30/2012	Professional Fees	54256	47,579.43	
5	6/30/2012	Maintenance - Other Equipment	54324	3,029.50	
5	6/30/2012	Computer Hardware Maintenance	54361	2,109.40	
5	6/30/2012	Official Travel Advances	12014		(3,317.36)
5	6/30/2012	Accruals	20150		(2,425.40)
5	6/30/2012	Accruals	20150		(13,416.60)
5	6/30/2012	Accruals	20150		(288.63)
5	6/30/2012	Accruals	20150		(47,579.43)
5	6/30/2012	Accruals	20150		(3,029.50)
5	6/30/2012	Accruals	20150		(2,109.40)
5	6/30/2012	Accruals	20150		(745.38)
5	6/30/2012	Accumulated Surpluses - System Only	32001		(6,034.96)
5	6/30/2012	Prior Period Adjustments To record accrual of expenses in the correct accounting period.	32006		(113.90)
6	6/30/2012	IRIS Support & Upgrades-IBTS-In	46526	703.44	
6	6/30/2012	Internet Services-OPS -Interdep	46527	99.36	
6	6/30/2012	Internet Services-OPS -Interdep	46527	99.36	
6	6/30/2012	Sales of Services Interdepartmental	42062	124.20	
6	6/30/2012	Sales of Services Interdepartmental	42062	124.20	
6	6/30/2012	Security Server and Network Pro	46510	110.20	
6	6/30/2012	Security Server and Network Pro	46510	110.20	
6	6/30/2012	Application Project -Interdepar	46511	12,555.97	
6	6/30/2012	Technical Support -Interdepartm	46513	2,513.28	
6	6/30/2012	Technical Support -Interdepartm	46513	2,513.28	
6	6/30/2012	Server & Network Support -Inter	46514	2,112.65	
6	6/30/2012	Server & Network Support -Inter	46514	2,112.65	
6	6/30/2012	Database Administration -Interd	46521	15.12	

6	6/30/2012	Database Administration -Interd	46521	15.12	
6	6/30/2012	IRIS Support & Upgrades-IBTS-In	46526	703.44	
6	6/30/2012	Accumulated Surpluses - System Only	32001		(12,555.97)
6	6/30/2012	Accumulated Surpluses - System Only	32001		(5,678.25)
6	6/30/2012	Accumulated Surpluses - System Only To reverse revenue accounts for transactions which relate to other accounting periods. Inv 20032837; 20032836; 20032835; 20032944; 20032943	32001		(5,678.25)
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7	6/30/2012	Security Server and Network Pro	46510	2,182.10	
7	6/30/2012	Application Project -Interdepar	46511	19,743.36	
7	6/30/2012	Technical Support -Interdepartm	46513	1,118.72	
7	6/30/2012	Server & Network Support -Inter	46514	5,099.50	
7	6/30/2012	Website Hosting -Interdepartmen	46520	207.00	
7	6/30/2012	Database Administration -Interd	46521	680.40	
7	6/30/2012	Application Support & Upgrades-	46524	3,726.00	
7	6/30/2012	IRIS Support & Upgrades-IBTS-In	46526	2,110.32	
7	6/30/2012	Internet Services-OPS -Interdep	46527	273.24	
7	6/30/2012	Other Receivables	12012		(15,397.28)
7	6/30/2012	Other Receivables To reflect in the correct period CM created in 2012-13 relating to 11-12 audit. INV 20032911; 20032920 MACI	12012		(19,743.36)
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8	6/30/2012	Sales of Services Interdepartmental	42062	110.00	
8	6/30/2012	Sales of Services Interdepartmental	42062	1,439.18	
8	6/30/2012	Sale of Gazettes and Subscripti	42113	6,126.53	
8	6/30/2012	Sale of Gazettes and Subscripti	42113	26.00	
8	6/30/2012	CSD P&C Sales	42408	10.00	
8	6/30/2012	Outputs Sold to EXCO	46001	372.60	
8	6/30/2012	Security Server and Network Pro	46510	2,170.50	
8	6/30/2012	Application Project -Interdepar	46511	4,940.16	
8	6/30/2012	Technical Support -Interdepartm	46513	1,118.72	
8	6/30/2012	Server & Network Support -Inter	46514	4,443.85	
8	6/30/2012	Website Hosting -Interdepartmen	46520	207.00	
8	6/30/2012	Database Administration -Interd	46521	14.37	
8	6/30/2012	Database Administration -Interd	46521	438.48	
8	6/30/2012	Application Support & Upgrades-	46524	2,401.20	
8	6/30/2012	IRIS Support & Upgrades - Inter	46525	148.54	
8	6/30/2012	IRIS Support & Upgrades-IBTS-In	46526	2,110.32	
8	6/30/2012	Internet Services-OPS -Interdep	46527	289.80	
8	6/30/2012	Hurricane Disaster Preparedness	54418	6,320.96	

8	6/30/2012	Other Receivables	12012		(6,126.53)
8	6/30/2012	Other Receivables	12012		(110.00)
8	6/30/2012	Other Receivables	12012		(1,602.09)
8	6/30/2012	Other Receivables	12012		(13,189.87)
8	6/30/2012	Other Receivables	12012		(4,940.16)
8	6/30/2012	Other Receivables	12012		(372.60)
8	6/30/2012	Other Receivables	12012		(6,320.96)
8	6/30/2012	Other Receivables To adjust/correct the 2012 revenues - subsequent testing and transactions recorded in 2012-13 but relates to 2011/12 period.	12012		(26.00)
9	6/30/2012	Accumulated Surpluses - System Only	32001	167,671.34	
9	6/30/2012	Accounts Receivable - Sale of Goods and To correct GL 12003 based on subsidiary Aging Report	12003		(167,671.34)
10	6/30/2012	Accumulated Surpluses - System Only	32001	9,160.17	
10	6/30/2012	Accruals To correct accrual account - write back JUN1112-0405- 034-GL invoice#269558	20150		(9,160.17)
11	6/30/2012	Accumulated Surpluses - System Only	32001	608.40	
11	6/30/2012	Accumulated Surpluses - System Only	32001	110.00	
11	6/30/2012	Accumulated Surpluses - System Only	32001	1,602.09	
11	6/30/2012	Accumulated Surpluses - System Only	32001	13,189.87	
11	6/30/2012	Accumulated Surpluses - System Only	32001	4,940.16	
11	6/30/2012	Accumulated Surpluses - System Only	32001	15,397.28	
11	6/30/2012	Accumulated Surpluses - System Only	32001	372.60	
11	6/30/2012	Sales of Services Interdepartmental	42062		(110.00)
11	6/30/2012	Sales of Services Interdepartmental	42062		(1,439.18)
11	6/30/2012	Sale of Gazettes and Subscripti	42113		(608.40)
11	6/30/2012	CSD P&C Sales	42408		(10.00)
11	6/30/2012	Outputs Sold to EXCO	46001		(372.60)
11	6/30/2012	Security Server and Network Pro	46510		(2,170.50)
11	6/30/2012	Security Server and Network Pro	46510		(2,182.10)
11	6/30/2012	Application Project -Interdepar	46511		(4,940.16)
11	6/30/2012	Technical Support -Interdepartm	46513		(1,118.72)
11	6/30/2012	Technical Support -Interdepartm	46513		(1,118.72)
11	6/30/2012	Server & Network Support -Inter	46514		(4,443.85)
11	6/30/2012	Server & Network Support -Inter	46514		(5,099.50)
11	6/30/2012	Website Hosting -Interdepartmen	46520		(207.00)
11	6/30/2012	Website Hosting -Interdepartmen	46520		(207.00)
11	6/30/2012	Database Administration -Interd	46521		(14.37)
11	6/30/2012	Database Administration -Interd	46521		(438.48)
11	6/30/2012	Database Administration -Interd	46521		(680.40)
11	6/30/2012	Application Support & Upgrades-	46524		(2,401.20)

11	6/30/2012	Application Support & Upgrades-	46524		(3,726.00)
11	6/30/2012	IRIS Support & Upgrades - Inter	46525		(148.54)
11	6/30/2012	IRIS Support & Upgrades-IBTS-In	46526		(2,110.32)
11	6/30/2012	IRIS Support & Upgrades-IBTS-In	46526		(2,110.32)
11	6/30/2012	Internet Services-OPS -Interdep	46527		(289.80)
11	6/30/2012	Internet Services-OPS -Interdep To write-off credit memos done for prior to 2012 invoices billed in error	46527		(273.24)
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12	6/30/2012	Provision for Doubtful Debts	12501		(511,562.67)
12	6/30/2012	Debt Write Off	58504	511,562.67	
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To record provision for doubtful debts for 2012					
<hr/>					
13	6/30/2012	Surplus Payable	23422	1,168,069.04	
13	6/30/2012	Surplus Repayment	32007		(1,168,069.04)
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To adjust Surplus Repayment and Surplus payable based on 2011 audited balance					
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14	6/30/2012	Accumulated Depreciation Buildings	17035	11,303.96	
14	6/30/2012	Leasehold Improvements	17142	120,575.95	
14	6/30/2012	Accumulated Surpluses - System Only	32001	55,012.83	
14	6/30/2012	Depreciation Other Infrastructure Assets	60004	1,235.28	
14	6/30/2012	Depreciation Vehicles	60005	183.44	
14	6/30/2012	Depreciation Computer Hardware	60009	91,309.21	
14	6/30/2012	Depreciation Computer Software	60010	7,006.30	
14	6/30/2012	Depreciation Office Equipment	60011	1,404.21	
14	6/30/2012	Leasehold Depreciation	60015	24,115.17	
14	6/30/2012	Buildings	17030		(120,575.95)
14	6/30/2012	Accum Dep - Leasehold Improvements	17143		(90,431.96)
14	6/30/2012	Accumulated Surpluses - System Only	32001		(98,124.04)
14	6/30/2012	Depreciation Buildings	60001		(3,014.40)
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Adjustment to Correct Depreciation and Accumulated Depreciation based on Updated FAR					
<hr/>					
TOTAL				2,545,811.43	(2,545,811.43)

APPENDIX 3 – SUMMARY OF UNADJUSTED DIFFERENCES

No.	Date	Name	Account	Debit	Credit
1	6/30/2012	Cash	10101	17,787	
1	6/30/2012	Stale Dated Cheques	20383		(17,787)
		Stale Dated Cheques as at 30 June 2012			
2	6/30/2012	Movement in Annual Leave Provision	50150	2,370	
2	6/30/2012	Long service leave	22100		(2,370)
		Difference noted in testing			
3	6/30/2012	Other Receivables	12012	11,150	
3	6/30/2012	Rental – Temporary Housing	42317		(11,150)
		Recalculation of projected receivables for TH clients			
4	6/30/2012	Accrued Prepayments	54306	6,612	
4	6/30/2012	Software Maintenance	20150		(6,612)
		Project recalculation of Prepayments			
TOTAL				37,919	(37,919)

APPENDIX 4 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>1. Enhance Monitoring of Property and Equipment</p> <p>During our examination of the property and equipment, we noted that the Entity does not have an accurate and complete property and equipment listings on the beginning balance of the fixed asset accounts. The deficiencies appear to be primarily due to the following:</p> <ul style="list-style-type: none"> a. General lack of precision in maintaining the property records; b. Lack of specific responsibility for property accounting; and c. Failure of management to establish certain accounting controls in the physical inventory. <p>This observation has been noted since 2005-06 audit.</p>	<p>The weaknesses can cause equipment losses and may even be undetected because of the lack of detailed property and equipment listing. In financial reporting, there is deficiency in the substantiation of valuation of property and equipment, as there are no detailed schedules that can allow verification of the components of the reported value. Also, IPSAS 26 requires the periodic, regular testing to verify whether there have been impairments to the reported value of certain assets, including property and equipment. With the inability to verify individual asset, the requirement cannot be complied with.</p> <p>In order to improve internal control over property and equipments, detail property and equipment listings should be prepared, maintained and reconciled to the general ledger control accounts on a regular basis and all significant differences should be investigated and explained. Complete annual fixed asset counts are another way management can ensure that controls are in place to monitor fixed assets and their location.</p>	<p>Due to lack of resources Computer Services Department, which maintains the largest number and value of assets, has been unable to maintain its fixed asset register. Going forward this should not be an issue since management has made a significant effort since June 2012 to update their fixed asset register. The Closing Fixed asset register is accurate and up to date.</p>	<p>Immediately</p>

<p>2. Role of Treasury Department</p> <p>In previous audits, we noted that transactions were recorded and posted by the Treasury department to the entity's books on occasions without the Chief Financial Officers' (CFO) awareness or approval on the nature or description of the entry. Sound internal control dictates that segregation of duties should exist between accounting and treasury department. Persons handling cash or preparing bank reconciliation statement should be separate from persons recording transactions to the general ledger.</p>	<p>This observation leads to potential risks of inaccurate or improper entries recorded in the books as well as manifestation of poor internal control.</p> <p>The Chief Financial Officer should have a dialogue with the Treasury department defining each others' role in the recording of transactions in the entity's books. Treasury personnel should not be involved in the recording of financial transactions. If segregation of functions is not attained, the CFO should see to it that all entries emanating from Treasury should be forwarded to him for review and approval before it is posted.</p>	<p>Management agrees, and the frequency of this has declined over the years due to CFOs voicing their concerns with this practice.</p>	<p>Immediately</p>
<p>3. Delay in the Recording of Transactions</p> <p>Section 17 (1 and 2) of the <i>Financial Regulation (2010)</i> provides that:</p> <p><i>"1. A transaction shall be recorded by a prescribed entity as soon as possible after the transaction has occurred, and in all cases no later than one week from the date of the transaction" and</i></p> <p><i>"2. All end of period adjustment shall be made within two weeks of the end of each quarter"</i></p> <p>However, verification of the entity's journals revealed that there were delays in the recording of transactions including period adjustments resulting to a number of adjustments during current and previous audits.</p>	<p>Delay in recording transactions has an adverse effect on the accuracy of accounts and the timeliness of information that could have been achieved had the transactions recorded on time.</p> <p>It is recommended that personnel involved in recording should adhere to the requirements embodied on <i>Section 17 of the Finance Regulation Law</i>.</p> <p>Likewise, the Chief Financial Officer should see to it that the transactions recorded are being reviewed and the above- mentioned provision is being observed.</p>	<p>Noted. Management would like to note that the Accounting Team has focused on complying with this to the point that month end reporting is finalized within 5 days of the months end every month. It is expected that this will not be a major issue now that the audits are up to date and most prior period adjustments have been completed.</p>	<p>Immediately</p>

<p>4. Hurricane Paloma transactions</p> <p>Cabinet Office purchased Generators and Trailers in the amount of \$154K during the aftermath of Hurricane Paloma and distributed to the residents of Cayman Brac. Review of these transactions revealed that these were recorded as expenses in the 2008/09 financial audit year. It was learned from the Acting Chief Financial Officer that agreement or memorandum of understanding was not present when these generators or trailers were distributed.</p>	<p>The memorandum of understanding or contract between Cabinet Office and the beneficiaries of these generators and trailers play an important role in determining the proper classification and recording of these items. The distribution of generators or trailers to Cayman Brac residents should be supported by a duly signed agreement in order to determine who is the owner or has the right to these properties.</p> <p>It is recommended that the Chief Officer / management / government should determine if these generators and trailers should remain under the possession of Cabinet Office. An agreement or contract should be present in order to determine the proper journal entry to be recorded in the financial statements.</p>	<p>Agreed. However, after so many years it would not be feasible to obtain signed agreements from each individual that received a trailer and/or generator. Also, trailers and generators have a very short life span hence they would have an immaterial value at the time of this audit.</p>	<p>Immediately</p>
<p>5. Lack of proper year-end financial statement closure process.</p> <p>It was noted that several adjustments were recorded during audit as a result of inadequate year-end financial statement closure process. These include accrual and prepayment adjustments made at year end.</p> <p>We also noted some accounts which were not agreed to the schedules. This observation may have been prevented had the entity exemplify year-end financial statement closure process.</p>	<p>The risk that financial statements might be misstated and additional costs might be incurred as a result of more audit work to be performed due to lack of year-end financial statement closure process.</p> <p>It is recommended that the Acting CFO should coordinate with the departments finance staff in order to create a procedure in relation to year-end financial statements. This process should include determination of all transactions that require adjustments, agreeing schedules and supporting documents to general ledgers as well as proper maintenance of records to support this process.</p>	<p>Noted. These will not be major issues in the upcoming audit year since most prior period adjustments were done in this fiscal year. There will be better coordination with finance staff of each department since more time will be dedicated to the accuracy of the current audit year and audit schedules rather than prior period adjustments.</p>	<p>Immediately</p>

<p>6. Lack of policy to determine the nature and description of transactions that should be recorded on each account in the financial statements.</p> <p>We noted that few expense accounts have similar account description but were separately presented in the financial statements. For instance - miscellaneous expense accounts (54428; 54915; 57095) and telephone charges (51430 and 51445).</p> <p>We also noted that the (hurricane disaster preparedness) included transactions relating to rent and other utilities which should be recorded separately in the financial statements.</p>	<p>This lack of policy in the recording of a certain transaction for each GL account leads to perplexity of posting the proper account in the financial statements.</p> <p>It is recommended that management should define the nature, description and uniform application of transactions that should be recorded on each account. This will prevent the duplication and misclassification of accounts in the financial statements.</p>	<p>Noted.</p> <p>Items such as all telephone charges will be charged and reclassified to one single account going forward.</p> <p>Misclassification of hurricane disaster rent at Citrus Grove will be pointed out to the Director of Computer Services.</p>	<p>Immediately</p>
<p>7. Lack of proper controls for employee entitlements</p> <p>During the current audit, we noted the following:</p> <ol style="list-style-type: none"> Some leave schedules do not agree with the individual leave record per employee. There was no approved form/template for the use of comp time. Leave of HOD is not signed by CO. <p>These observations manifest the lack of proper controls towards recording of employee entitlements in the financial statements.</p>	<p>It is recommended that management should create a procedure relating to employee entitlements in order to determine the accuracy and validity of related accounts in the financial statements. This procedure should cover the signing authority</p> <p>Also, the CFO should review and verify the schedules submitted by each department to determine the accuracy of report. This will ensure that employee entitlement accounts in the financial statements are properly recorded.</p>	<p>A procedure is already in place within each department/unit where the leave records are kept up to date by each manager in charge; this information is then relayed to the CFO in order to record the liability in the financial statements.</p> <ol style="list-style-type: none"> Cabinet Office will ensure that leave records are as accurate as possible but given the number of employees minor mistakes can be made. It will be recommended to the Chief Officer that going forward all comp time leave forms should be completed by all staff. Very few leave records were not signed for HODs. Cabinet Office will ensure that all HOD records are signed prior to leave taken. 	<p>Immediately</p>

<p>8. Lack of audit committee</p>	<p>We recommend the Chief Officer to establish an audit committee to assist the CFO. The Chief Officer should take care in appointing members and establishing committee responsibilities. Members should be well qualified with significant experience in finance and accounting. The audit committee should be responsible for engagement of the independent auditors, review of the audit plan and audit results, including the audited financial statements and financial statement adjustments proposed and made throughout the audit. The audit committee should also be responsible for communicating the audit results to the Chief Officer and facilitating communications between the Auditors and the management. Furthermore, the audit committee can take responsibility for the oversight of internal controls, particularly the requirement of management to report on the effectiveness of the internal controls over financial reporting. Other areas for which audit committees can take responsibility include oversight of company policies and procedures, compliance with regulatory matters, investigating suspected misconduct or the possible override of controls by supervisors and/or management and any other areas as directed by the Chief Officer or management.</p>	<p>Management has noted the Auditor General's concerns however current Government's organizational structure does not make it feasible at this time. Perhaps the Auditor General should consult with the Accountant General to come up with a Government wide plan to implement audit committees.</p>	<p>Immediately</p>
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<p>9. Document Accounting Policy for External and Internally-developed software</p> <p>During the audit, we noted that the entity does not have a documented policy and procedures in accounting and reporting for external and internally developed software.</p>	<p>We recommend the entity to establish a written policy and procedures for accounting of software. A documented, up-to-date policy aligned with the related accounting standards, as well as specific process will ensure the effective, consistent and efficient reporting of external and internally developed software. The policy and procedure should also identify who should be performing the recording function and reviews of transactions and when these reviews and approvals should occur. This will serve as a basis in recording software transactions and an integral part of financial reporting. The entity may wish to consult with internal auditors or experts to ensure adherence to policies and to recommend changes that would improve operations.</p>	<p>Noted. Management will consult with the Director of CSD in order to come up with a written policy on the treatment of External and Internally-developed software.</p>	<p>Immediately</p>
<p>10. Establish an IT committee</p>	<p>We recommend the entity to establish an IT committee to plan and manage all IT functions and policies across the department to best utilize company resources and aid in productivity. This committee should be responsible for planning for and monitoring the company's IT needs and preparing budgets in both the short and long term given the company's future operating plans and the technologies currently and soon to be available. Members of the committee should have substantial experience in the IT field and experts should be consulted as needed. Specific IT matters to be considered include the selection of hardware and software</p>	<p>Management has noted the Auditor General's concerns however due to CSD's limited staff resources the feasibility of coordinating and implementing such a team would not be possible in the near future.</p>	<p>Immediately</p>

	<p>products, the usage of electronic commerce and internet transactions, the management of IT product implementation and related training as well as the management of IT personnel and their performance and the outside sourcing of IT functions.</p>		
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APPENDIX 5 – MANAGEMENT REPRESENTATIONS

Alastair Swarbrick
Auditor General
Office of the Auditor General
3rd Floor, Anderson Square
64 Shedden Road,
PO Box 2583
Grand Cayman, KY1-1103
Cayman Islands

Dear Mr. Swarbrick,

We are providing this letter in connection with your audit of the financial statements and Statement of Outputs Delivered of the Cabinet Office (the “Office”) for the year ended 30 June 2012. We recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the Financial Statements present fairly, in all material respects, the financial position of the Cabinet Office as at 30 June 2012 and of the results of its operations and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards and whether the Statement of Outputs Delivered present fairly, in all material respects, the indicated performance of the Office as measured by reference to the parameters provided by us.

We confirm that we are responsible for the fair presentation in the Statements for the indicated performance, in accordance with section 44 (2) of the *Public Management and Finance Law (2012 Revision)*.

Accordingly, we make the following representations which are true to the best of our knowledge and belief:

General

We recognize that, as members of management of the Office, we are responsible for the fair presentation of its financial statements. We confirm that the financial statements are free of material misstatements and omissions. We believe the balance sheet, statements of income and cash flows and other disclosures in the financial statements are fairly presented.

However, we note that some requirements for presentation and disclosures under IPSAS have not been complied with. We are unable to assert to the completeness, existence and valuation of the beginning balance of fixed asset amounts;

We have made available to your representatives all financial records and all significant information relating to the Cabinet Office.

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements. There are no plans to curtail or vary significantly, the operational activities of the Cabinet Office.

Internal Accounting Control

Except for fixed assets, there are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance.

Ownership and Pledging of Assets

Except for fixed assets, the Cabinet Office has satisfactory title to all assets appearing in the balance sheet. Except as already disclosed in the financial statements, there are no liens or encumbrances on such assets nor has any asset been pledged. All assets to which the Cabinet Office has satisfactory title appear in the balance sheet.

Related Party Transactions

All related party transactions with the Cayman Islands Government and others have been disclosed in the financial statements.

Arrangements with Financial Institutions

There are no arrangements with financial institutions involving compensating or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, except as already disclosed in the financial statements.

Contingent Liabilities

There are no unasserted claims or assessments that are probable of assertion and which should be disclosed in the financial statements.

There have been no violations or possible violations of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. Operations during the current year have been in compliance with the *Public Management and Finance Law (2012 Revision)* and the Cabinet Office's authorized investment policy.

There have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance with laws or regulations in any jurisdiction, or deficiency in financial reporting practices or other matters that could have a material effect on the financial statements.

There are no material liabilities or gain or loss contingencies that are required to be disclosed in the financial statements nor are there any accruals for loss contingencies included in the balance sheet.

The Cabinet Office has not entered into any written or oral guarantees, except as disclosed in the financial statements. The Office has not retained legal counsel for the period to date in respect to litigation, claims or assessments.

Purchase and Sale Commitments

At 30 June 2012 the Cabinet Office had no purchase commitments for goods or services except as already disclosed in the financial statements.

There are no agreements or commitments to repurchase assets previously sold. There were no commitments outstanding at 30 June 2012 for futures contracts or hedge transactions except for those disclosed in the financial statements.

Fraud or Irregularities

We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected, and have disclosed to you the results of our assessment of the risk that the Statements may be materially misstated as a result of fraud.

There has been no:

- Fraud or irregularities involving management or employees who have significant roles in internal control, whether or not they are perceived to have a material effect on the financial statements;
- Fraud involving others that could have a material effect on the financial statements;
- Cases of suspected fraud or allegations of fraud communicated by employees, former employees or others; and
- Violations or possible violations of laws or regulations (including the failure to file reports required by regulatory bodies) whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

Subsequent Events

Except as already disclosed above and in the financial statements, there are no events or transactions which have occurred since 30 June 2012 or are pending that would have a material effect upon the Statements at that date or for the year then ended, or that are of such significance in relation to the Cabinet Office's affairs to require mention in a note to the Statements in order to make them not misleading as to the financial position and results of operations of the Cabinet Office.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We understand that your audit is conducted in accordance with International Standards on Auditing and was, therefore, designed primarily for the purpose of expressing opinions on the Financial Statements of the Cabinet Office taken as a whole, and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Yours faithfully,

Mr. Orrett Connor
Cabinet Secretary
Cabinet Office

Ms. Neyka Webster
Acting Chief Financial Officer
Cabinet Office