



**MINISTRY OF FINANCIAL SERVICES AND HOME
AFFAIRS**

Report to those charged with governance on the 2016/17 audit

*To help the Public
Service spend
wisely*

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REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 31 December 2017 financial statements of the Ministry of Financial Services and Home Affairs ("the Ministry"). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Ministry 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; and
 - 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 2016/17 that we consider are worthy of drawing to your attention.
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 (2015) it is the policy of the Office of the Auditor General to release all final reports proactively through our website: www.auditorgeneral.gov.ky.

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 Ministry's annual report to consider whether such information is materially consistent with information appearing in the financial statements or our knowledge of the operations of the Ministry. We have not reviewed any other documents containing the Ministry's 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 9 August 2017, 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 have issued an unmodified auditor's report on the financial statements with an emphasis of matter.
9. A summary of adjustments made to the financial statements is attached in Appendix 1. Appendix 2 summarizes those uncorrected misstatements identified during the audit that were deemed by management to be immaterial, both individually and in aggregate, to the financial statements taken as a whole.
10. As part of the completion of our audit we sought written representations from management on aspects of the accounts and judgments and estimates made. Management provided us with representations 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 Ministry's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Ministry 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 are not consistent with general industry practice apart from those issues that were corrected and noted within Appendix 2. In addition we are not aware of any new or controversial accounting practices reflected in the Ministry'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

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 Ministry's ability to continue as a going concern.

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

14. We identified certain matters (at Appendix 3) relating to the system of internal control and its operation, and are submitting for your consideration related observations and recommendations designed to help the Ministry improve its system of internal control.

FRAUD OR ILLEGAL ACTS

15. 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.

16. 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.
17. No fraud or illegal acts came to our attention as a result of our audit.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

18. Poor quality and untimely audit schedules attributed to a delay in the completion of the audit in a timely manner.

DISAGREEMENTS WITH MANAGEMENT

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

ANY OTHER SIGNIFICANT MATTERS

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

ACKNOWLEDGEMENTS

21. We would like to express our thanks to the staff of the Ministry for their help and assistance during the audit of this year's financial statements.



Sue Winspear, CPFA

Auditor General

26 October 2018

Cayman Islands

APPENDIX 1 – SUMMARY OF ADJUSTED DIFFERENCES

Account Number	Account Name	Debit	Credit
12008	Prepayments - System		52,290
12009	Accrued Prepayments		169,371
12012	Other Receivables	111,435	
13201	Other Inventories for use within one yea	137,387	
17020	Fixed Assets Mass Ad	398,249	
17021	Construction In Prog		12,948
17035	Accumulated Deprecia		164,933
17050	Water Reticulation and Sewerage		
17055	Accumulated Depreciation Water Reticulat		72,404
17060	Other Infrastructure	23,544	
17065	Accumulated Deprecia	13,928	
17070	Vehicles		101,043
17075	Accumulated Deprecia	23,053	
17085	Accumulated Depreciation Aeroplanes	551	
17090	Boats		12,784
17095	Accumulated Deprecia	99,132	
17100	Furniture & Fittings		2,710
17105	Accumulated Deprecia	25,856	
17110	Computer Hardware	18,952	
17115	Accumulated Deprecia		34,457
17120	Computer Software		30,093
17125	Accumulated Deprecia	51,061	
17130	Office Equipment		3,600
17135	Accumulated Deprecia	4,911	
17140	Other Plant & equipm		60,147
17142	Leasehold Improvements		5,125
17143	Accumulated Depreciati	1,388	
17145	Accumulated Deprecia	57,285	
18100	Other Non-Current Assets		137,387
20150	Accruals - Other	196,747	
20400	Intercompany Trade C	249,693	
22100	Long service leave a	3,656	
22107	# Accrued - Salaries and Wages		15,905

23422	Surplus Payable		162,500
32006	Prior Period Adjustm		62,535
32007	Surplus Repayment	162,500	
35001	Contributed Capital		391,888
50013	Overtime	15,905	
50018	Temporary Relief	7,950	
50150	Movement in Annual L		3,656
50229	Training		141
50961	Vehicle Fuel and Oil		132
51001	Office Supplies - Co		260
51405	Electricity		346
51420	Water		5
51430	Telephone Charges		1,264
54227	Bank Charges		597
54256	Professional Fees	22,305	
54304	Mail Courier Service		249
54306	Janitorial Services		692
54351	Computer Software Ma		48,071
54352	Software Licensing F		17,570
54403	Security Services	5,851	
54428	Miscellaneous		55,529
54988	National CCTV Extend		18,093
55506	Financial Attest Ser	68,750	
57155	Subscriptions-Journa	68	
57167	Subscriptions, Associations and Memberships	931	
57277	Insurance - Property	200,244	
58505	Doubtful Debt Expense		25,405
60001	Depreciation Buildin		8,951
60004	Depreciation Other I		107,735
60005	Depreciation Vehicle		40,369
60007	Depreciation Boats		22,825
60008	Depreciation Furnitu		2,608
60009	Depreciation Compute		25,015
60010	Depreciation Compute	2,230	
60011	Depreciation Office	6,759	
60012	Depreciation Other P		38,692
		1,910,322	1,910,322

APPENDIX 2 – SUMMARY OF UNADJUSTED DIFFERENCES

Date	Name	Account No	Debit	Credit
12/31/2017	Prior Period Adjustment	32006	47,419	
12/31/2017	Security Services	54403		47,419
	Being entry to record prior year security expenses recorded in the current year			
12/31/2017	Accruals - Other	20150		49,103
12/31/2017	Miscellaneous	54428	49,103	
	Being entry to record unrecorded liabilities			
12/31/2017	Comp Time Liability	22105		23,121
12/31/2017	Comp Time Expense	50155	23,121	
	Being entry to record judgmental difference on comp time			
			119,643	119,643

APPENDIX 3 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observations	Risks/Implications & Recommendations	Management Response	Implementation Date
<p>1. <u>Insufficient controls for the departments transferred into the Ministry</u> Effective 31 July 2017, five departments were transferred into the Ministry. Some of the assets from these departments were not transferred on the effective date and inadequate reconciliation was done between Ministries to agree the balances. In addition, there was a lack of clarity on the accounting treatment of the assets transferred in by Treasury.</p>	<p>Risk/Implication This resulted in significant adjustments to the asset balances during the audit process and inability of management to track its assets correctly.</p> <p>Recommendation Management should ensure that transferred balances are reconciled and any discrepancies resolved on a timely basis.</p>	<p>Post-election - the transfer of assets was effected in IRIS by the EPS Unit in Treasury. Transfers could not be effected until the transferring department indicated that the register was updated and available to be transferred. As the recipient of the transfers, the MFSHA had little to no control over the timing of the transfers. Management has noted the recommendation and will aim to conduct reconciliations of the balances being transferred.</p>	<p>N/A</p>

<p>2. <u>Policies and Procedures for Food</u></p> <p>There is a lack of formal policies and procedures to procure and safeguard the food for the prisoners. There is no indication that controls exist to ensure that food is being used efficiently and not abused.</p>	<p>Risk/Implication Based on its nature, food is prone to abuse and wastage.</p> <p>Recommendation Management should develop policies and procedures and implement the relevant controls to ensure that food is utilized in an efficient manner.</p>	<p>Management has noted the recommendations and has taken steps and putting measures in place to reduce the risk in this area which also includes the hiring of a Kitchen Manager which should be finalized before the end of the year.</p>	<p>May 2018</p>
<p>3. <u>Overtime</u></p> <p>Consistent with prior year, this account balance is significant. For the 18-month period ended 31 December 2017, overtime expense was 6.6M for Fire and Prison, representing a 58% increase in the overall expense. There were no business cases to support the majority of the overtime expenditure and no evidence that the overtime expense is being closely monitored due its susceptibility to abuse.</p>	<p>Risk/Implication Continuously high level of overtime and the absence of business case analysis could result in abuse by employees.</p> <p>Heavy reliance on overtime could be detrimental to wellbeing and quality of life of employees.</p> <p>Recommendation Management should monitor and analyze overtime cost and prepare business cases for either continuing with overtime or hire additional staff which may be a more cost efficient alternative. Likewise, management should consider the results of current actual overtime expense to project budgetary need for personnel cost components.</p>	<p>PRISON The prison service has recruited, during May 2018, 22 new recruits. This will reduce the numbers of posts that we work uncovered and subsequently the need for overtime payments. The Children's Unit was previously staffed entirely through overtime (for which there was a supporting and agreed business case). This unit has now closed and as a result that overtime burden has dissipated. We currently have two children in custody and although we don't anticipate using overtime</p>	<p>PRISON Recruitment and other changes have been made and are now in place.</p> <p>FIRE Job descriptions are currently being reviewed through the Ministry. Once completed, recruitment will begin. Until the new recruits are fully trained and moved into Fire</p>

		<p>to staff the Children's Unit going forward as this was a part of the additional staffing granted in the 2018-2020 budget, we anticipate cooperating with our criminal justice partners to find alternative solutions to having children incarcerated.</p> <p>IDC cover was also another premium overtime spend however that cost was mitigated by cross charging Immigration. The IDC is now operating again however the staffing quota's to cover that facility are reduced significantly because of the number of detainees being held currently. We also anticipate expedited handling of detainees applications by the Governor's Office, the Ministry of HRI and the Department of Immigration to reduce the duration of the coverage needed.</p> <p>FIRE A business case is being</p>	<p>Fighter role, overtime will still be required.</p>
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		<p>prepared to outline in details, the need, action plan and challenges to implementation of action plan.</p> <p>The current high overtime rate is based on several factors:</p> <ol style="list-style-type: none"> 1. The number of funded posts = 148. The actual current staffing is 98. A shortfall of 50 persons. 2. Of the 98, - 8 are on light duties returning to work from injury or serious illness and cannot perform on the front line. 3 are still on Additional sick leave and 5 are on Required Leave. In the past year, 7 have resigned; 3 were terminated and 7 have retired. The other posts are vacant. 3. Mandated manning levels require a set amount of staff on duty – particularly for 	
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		<p>aerodrome. This is linked to licencing approvals and monitored by Civil Aviation.</p> <p>4. The Manning changed from 3 to 4 persons at West Bay and Frank Sound Stations to comply with internationally recognised minimum manning levels. While manning levels changed, overall staffing numbers remained static.</p>	
<p>4. Fraud and Risk Management (Recurring)</p> <p>There are no formal policies and procedures for identifying and responding to fraud risk factors and other risks.</p>	<p>Risk/Implication</p> <p>If risks are not adequately identified and assessed, there could be a lack of controls to mitigate the identified risks which could result in fraud or errors.</p> <p>Recommendations</p> <p>An effective risk assessment policy should be established to identify risks within the organization including financial risk, fraud risk, strategic & operational risks, information security risk, reputational risk and regulatory compliance risks. Once risks are identified, controls should be put in place to mitigate these risks and risk assessment should be carried out at least on an annual basis.</p> <p>A fraud risk policy should also put in place which clearly outline the purpose of the policy, who it applies to, terms of reference (i.e. actions which constitute fraud,</p>	<p>The CIG Anti-Fraud Policy was put in place as at June 2017 government wide. Employees from our Ministry and departments have since received anti-fraud training.</p>	<p>Policy in Place June 2017</p> <p>Training was completed by August 2018</p>

	<p>corruption and abuse), and repercussions for actions of fraud.</p> <p>The policy should also identify how often the fraud risk assessment is to be performed (annually is recommended) and who is responsible for performing the assessment.</p>		
<p>5. <u>Quality of Financial Records and Review Processes (Recurring)</u></p> <p>The following were noted during the financial year audit:</p> <ul style="list-style-type: none"> - Several versions of the fixed assets roll-forward schedule were completed due to incorrect accounting treatment and errors. - Audit schedules with unreconciled differences. - Review processes are lacking resulting in several adjustments having to be subsequent to year end including a significant amount of time cleaning up the final financial statements. - The final budget figures were not adequately presented in the financial statements. - Unrecorded liabilities were identified for expenses relating to the 2017 financial period. - On payment, transactions relating to prior year accruals are posted to the current year expenses and not recorded against the accrual. - In preparing the financial statements, some of the balances recorded were not reflective of the general ledger balances, comparative information did not agree to the prior year financial statements, notes were not adequately numbered and the appropriate relevant disclosures not included in the 	<p>Risk/Implication</p> <p>Poor quality financial records and additional time spent during the audit process to resolve issues identified.</p> <p>Increases the risk of errors being difficult to resolve and consequently results in incorrect financial information.</p> <p>Recommendations</p> <p>Frequent reconciliation of accounts such as fixed assets, salaries, overtime and accruals. These reconciliations should be reviewed and any differences resolved in a timely manner.</p> <p>Management should ensure that transactions are properly recorded in the correct period.</p> <p>Management should ensure that the financial statements are properly prepared in accordance with IPSAS. It should reconcile and agree to the trial balance.</p>	<p>The post-election transfer of assets posed a challenge as departments were transferred in to the Ministry in a piecemeal fashion which made the reconciliation process particularly tedious.</p> <p>The final budget figures also had to be adjusted to reflect the change in the Ministries Post-Election with 2 departments transferred out and 5 departments transferred in.</p> <p>Management has noted the recommendations and will aim to improve the quality of the records going forward and expect much less issues of this nature going forward</p>	<p>November 2018</p>

<p>financial statements.</p> <ul style="list-style-type: none"> - Budget supplemental was not adequately captured in the final budget numbers included in the financial statements. 			
<p>6. <u>Related Party Disclosures (Recurring)</u></p> <p>Related party disclosures are not adequately assessed on submission of register on interest forms for impact on financial statement disclosures.</p>	<p>Risk/Implication</p> <p>Lack of proper assessment of register of interest's means that related party disclosures may not be adequately captured in the financial statements.</p> <p>Recommendations</p> <p>The Ministry should have procedures in place to ensure that related parties are captured in accordance with IPSAS 20. On receipt of completed register of interest forms an assessment should be carried out for any transactions related to the disclosures made.</p> <p>Where forms were completed at the beginning of the financial year, confirmation should be sought on whether there were any changes to register of interests disclosures during the financial year.</p>	<p>Management has noted the recommendations and will put steps in place to carry out assessment of related party disclosures going forward.</p>	<p>November 2018</p>
<p>7. <u>Funding for replacement of assets (Recurring)</u></p> <p>During the financial period, as a result of normal wear and tear from usage a number of assets were purchased as replacement. All of the assets were procured using funds appropriated through equity investment (EI68) appropriations.</p> <p>Assets purchased for the first time should be funded</p>	<p>Risk/Implication</p> <p>The Ministry is not utilizing the amounts obtained through the annual depreciation funding for the purpose of replacing assets.</p> <p>Recommendation</p> <p>In purchasing assets, the Ministry should use the amounts obtained through the annual depreciation funding.</p>	<p>Historically we were instructed by Treasury and BMU to ensure capital was budgeted as an EI and also not to use depreciation funds for the purchase of replacement assets. There was never any clear directive and authorization</p>	<p>Will commence once Treasury directive is received.</p>

through E168 and those that are being replaced should be funded using the depreciation funding that is obtained through the annual budget.		for us to use depreciation funding for the replacement of assets as it would have a large impact on the CIG cash position. We have since requested formal guidance or directive from Treasury on this and will be more than willing to adhere once that directive is provided	
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