

20 September 2018

Office of the Ombudsman
3rd Floor Anderson Square
64 Shedden Road
P.O Box 2252
Grand Cayman KY1-1107
CAYMAN ISLANDS

Dear Ms. Hermiston,

RE: Audit of 31 December 2017 financial statements

Purpose and use: We have completed our audit of the 31 December 2017 financial statements of the Office of the Ombudsman (“OMB”) and have issued an unqualified opinion on those statements. In rendering my audit opinion on the financial statements I have relied on the work carried out on my behalf by a public accounting firm who performed their work in accordance with International Standards on Auditing.

Professional standards require that we communicate certain matters to those charged with governance of the OMB. 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 Law (2015 Revision)* it is the policy of the Office of the Auditor General to release all final reports proactively through our website: www.auditorgeneral.gov.ky.

AUDITORS RESPONSIBILITIES IN RELATION TO THE AUDIT

Auditor’s responsibility under International Standards on Auditing: International Standards on Auditing 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 a governance interest which came to our attention as a result of the performance of our audit.

Responsibilities of management and those charged with governance: 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: We have reviewed OMB's Annual Report for the period ending 31 December 2017 and have provided comments in a separate communication with management.

GENERAL APPROACH AND OVERALL SCOPE OF THE AUDIT:

The accounting firm applied a top-down, risk-based approach to planning and conducting the audit, through the application of well-reasoned professional judgment. They obtained an understanding of the OMB's operations and the related risks, which drove our assessment of materiality and identification of audit risks, including significant risks, which are audit risks that require special audit considerations. They also obtained an understanding of how management controls these risks, by considering management's approach to internal controls, and determined how they will test significant account balances and classes of transactions.

The accounting firm's audit approach was a substantive audit approach; whereby they conducted substantive testing, on sample basis, of significant transactions and balances, and did limited testing of the operating effectiveness of controls.

AUDIT REPORT, SIGNIFICANT IDENTIFIED MISSTATEMENTS (BOTH RECORDED AND UNRECORDED) AND MANAGEMENT REPRESENTATIONS:

We have issued an unqualified audit opinion on the financial statements. There were no uncorrected misstatements identified by the accounting firm during the audit. However, there were 2 corrected misstatements as noted in Appendix 1.

As part of the completion of our audit we seek written representations from management on aspects of the accounts and judgments and estimates made. Management has provided us with written representations in respect of our financial statement audit in a letter dated 1 May 2018.

SIGNIFICANT FINDINGS FROM THE AUDIT

Going concern doubts: 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 entity's ability to continue as a going concern.

Significant accounting practices: We are responsible for providing our views about qualitative aspects of the OMB's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the OMB 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. In addition we are not aware of any new or controversial accounting practices reflected in the OMB's financial statements.

Significant risks and exposures: Significant risks and exposures are disclosed in the financial statement footnotes.

Management's judgments and accounting estimates: There were no matters which required management to make significant judgments or which required significant estimates.

Significant deficiencies in internal control: There were two matters identified and communicated to us relating to internal controls by the accounting firm who carried out the audit on our behalf that need to be brought to management's attention as noted in Appendix 2.

Fraud or illegal acts: 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.

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.

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

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

Other miscellaneous matters: We are not aware of any consultations between management and other auditors about audit and accounting matters. We have no questions regarding management integrity.

No serious difficulties were encountered in the performance of our audit. We are not aware of any impairment to our independence as auditors.

Other engagement commitments: There were no other specific matters agreed upon in the terms of our engagement.

If you would like to discuss the results of our audit or any other matters in further detail please feel free to call Mr. Garnet Harrison (345) 244-3213 or me at (345) 244-3201.

Yours sincerely,



Sue Winspear, CPFA
Auditor General

APPENDIX 1: Summary of Corrected Audit Misstatements

Company Office of the Ombudsman

Summary of Corrected Audit Misstatements

For Year End 31/12/2017

Amounts in Currency unit
Method Used to Quantify Audit Miss Dual

Detailed instructions on automatically populating the audit misstatements from the Tracker are provided in the "Instructions" tab.

ID	Description of misstatement	Type of misstatement	Identified During	Accounts	Debit	(Credit)	<u>Income Statement Effect - Debit (Credit)</u>	<u>Balance Sheet Effect - Debit (Credit)</u>				
							Income Effect Debit (Credit)	Equity	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities
				Total income effect of corrected audit misstatements – Interim			0	0	0	0	0	0
AM	Adjustment to reclassify cash received from Cabinet relating to a capital injection which is still pending approval from the Legislative Assembly in accordance with the PMFL subsection 11(6)(b).	Factual	Final	Accruals and other liabilities	0	(500,000)	0	0	0	0	(500,000)	0
				Contributed capital	500,000	0	0	500,000	0	0	0	0
AM1	As discussed with the CFO, the Government entities usually follow the policy of expensing "attractive" assets when the cost is under \$1000 each. However, the engagement team reviewed an invoice for a purchase made of laptop computers and thought it more appropriate to classify these items as fixed assets. As a result the following entry was proposed.	Factual	Final	Property and equipment	5,670	0	0	0	0	5,670	0	0
				Supplies	0	(5,670)	(5,670)	(5,670)	0	0	0	0
				Total income effect of corrected audit misstatements – Final			(5,670)	494,330	0	5,670	(500,000)	0

APPENDIX 2: MATTERS RELATING TO INTERNAL CONTROLS

In planning and performing our audit of the financial statements of the Office of the Ombudsman as of and for the period ending 31 December 2017, we considered its internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. Our consideration of internal control would not necessarily identify all matters relating to internal controls that might be significant deficiencies (or other deficiencies that are not significant deficiencies) in the design or in the operation of internal controls, as defined under International Standards on Auditing below:

ISA 265 “Communicating deficiencies in internal control to those charged with governance and management” includes the following definitions of a deficiency and a significant deficiency in internal control:

Deficiency in internal control – This exists when:

- (i) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, a misstatement in the financial statements on a timely basis; or
- (ii) A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.

Significant deficiency in internal control – A deficiency or combination of deficiencies in internal control that, in the auditor’s professional judgment, is of sufficient importance to merit the attention of those charged with governance.

We did not identify any deficiencies in internal control that we consider to be significant deficiencies, as defined above. However, we noted certain matters involving the system of internal control and its operation, and are submitting for your consideration related observations and recommendations designed to help the Office of the Ombudsman improve the system of internal control.

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APPENDIX 2: MATTERS RELATING TO INTERNAL CONTROLS (continued)

DEFICIENCIES IN INTERNAL CONTROLS

1. Overdrawn bank account non-compliant with the *Public Management and Finance Law (2017 Revision)*

Observation: During the audit, it was noted that one of the bank accounts of the OMB was in overdraft. According to the *Public Management and Finance Law (2017 Revision)* section 41(1)(d) – “A ministry or portfolio shall not permit any of its bank accounts to be overdrawn”.

Potential effect: Non-compliance with the *Public Management and Finance Law (2017 Revision)*.

Recommendation: Management implement processes to ensure that adherence to the relevant laws and regulations are achieved.

Management Response: *The Ombudsman’s payroll account was overdrawn as a result of an issue with respect to Cabinet Funding. This matter has since been resolved.*

2. Equity injection not approved in accordance with the *Public Management and Finance Law (2017 Revision)*

Observation: The audit team noted that Cabinet approved an exceptional circumstance financial transaction under section 11(5) of the *Public Management and Finance Law (2017 Revision)* during the period ended 31 December 2017. This included a reallocation of funds to the Office of the Ombudsman, in the form of an equity injection, for the purposes of capital spend. However, it was also noted, that this decision made by Cabinet on behalf of the Legislative Assembly, will only be appropriately approved after the Hon Attorney General makes a statement at the next sitting of the Legislative Assembly regarding the change in appropriations. In addition, the Ministry of Finance and Economic Development will need to prepare a Supplementary Appropriation Bill in order to obtain the Legislative Assembly’s approval for the changes in accordance with section 11(6) of the *Public Management and Finance Law (2017 Revision)*.

Potential effects: Appropriately approve from equity to a liability until such time that the appropriate approvals are obtained.

Recommendation: Appropriate approvals in accordance with the *Public Management and Finance Law (2017 Revision)* should be obtained to ensure transactions are accounted for accurately in the financial statements.

Management response: Management agrees with this recommendation and the Hon Attorney General will make a statement at the next sitting of the Legislative Assembly, scheduled for early June 2018, regarding the change in appropriations. Additionally, the Supplemental Budget process is coordinated by the Ministry of Finance and is also scheduled to be tabled at the next meeting of the Legislative Assembly in June 2018.