



Auditors Oversight Authority

CAYMAN ISLANDS

Annual Report
for the
Year Ended 30 June 2014

Auditors Oversight Authority
Annual Report
for the year ended 30 June 2014

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**Auditors Oversight Authority
Managing Director's Report
for the year ended 30 June 2014**

I am pleased to present my second report as Managing Director of the Auditors Oversight Authority (AOA) although I am not in a position to report as much progress as I would have liked.

I had hoped I would be able to report we would be able to commence, with the assistance of the Institute of Chartered Accountants of England and Wales, our first round of inspections of firms under our purview in the fall of 2014.

However before we can start the registration process and begin inspections we need to have the Regulations to the Auditors Oversight Law statutorily approved and published. This is proving to be somewhat more challenging than we anticipated in terms of both the time to prepare them for statutory approval and the time involved in obtaining statutory approval; it is possible we will have to defer the start of the inspection process until a time in 2015 which is convenient to all parties involved.

Accordingly the process of applying for equivalence status to the relevant bodies in the European Union and Japan continues to be on hold. We need to complete one or more inspections before we can apply for equivalency.

The AOA was accepted in February 2014 as a member of International Forum of Independent Audit Regulators (IFIAR). Membership in IFIAR is an important demonstration of the AOA's commitment to meet relevant international standards.

Donald Cockburn

Managing Director

9 August 2014

Auditors Oversight Authority Annual Board Report for the year ended 30 June 2014

The Auditors Oversight Authority (the “AOA”) was established by The Auditors Oversight Law, 2011 (the “Law”). The Law came into force 1 May 2012.

The appointed Board members are Messrs. Michael Austin (Chairman), Paul Anderton (Deputy Chairman), Kenneth Jefferson (Financial Secretary of the Cayman Islands), Alastair Swarbrick (Auditor General of the Cayman Islands) and Alister Mason. Mr. Donald Cockburn was appointed Managing Director of the AOA in August 2013 and is also a Board member, *ex officio*.

The function of the AOA is to regulate and supervise auditors who audit the financial statements of companies specified under the Law.

The Board meets quarterly and has been working to put AOA in a position to carry out its responsibilities under the Law.

Significant Board activities during the period 1 July 2013 to 30 June 2014 were as follows:

- Engaged a Managing Director (Donald Cockburn) in August 2013;
- Issued the first Annual Report (for the year ended 30 June 2013);
- Continued, with input from the Cayman Islands Society of Professional Accountants, the development of the Rules under which auditors of the companies referred to above will be subject to the AOA’s system of oversight, quality assurance and investigation. Once amendments to the Law and the Regulations under the Law have been given statutory approval (see below) the Rules will be finalized and issued;
- With assistance of legal counsel prepared a comprehensive list of proposed amendments to the Law as well as proposed Regulations under the Law which have been forwarded to Government for statutory approval; and
- Became a member of the International Forum of Independent Audit Regulators (IFIAR) in February 2014. Mr. Cockburn attended IFIAR’s 2014 plenary meeting in April 2014 on behalf of AOA.

The Board expects the AOA to commence conducting inspections of firms during its 2015 fiscal year.

Auditors Oversight Authority Board of Directors

Board Composition

The AOA Board comprises:

- The AOA's Managing Director (ex officio)
- The Auditor General of the Cayman Islands
- The Financial Secretary of the Cayman Islands
- 3 directors appointed by the Cayman Islands Government, to be retired public accountants and one of whom is not resident in the Cayman Islands.

Board Members

Chairman: Michael Austin, MBE, FCA

Michael Austin is a Fellow of the Institute of Chartered Accountants in England and Wales, an Associate Member of The Chartered Institute of Taxation, a Member of the Society of Trust and Estate Practitioners, a Member of the Cayman Islands Society of Professional Accountants, a Member of the Cayman Islands Institute of Directors, and a Notary Public of the Cayman Islands.

He served as the Managing Partner of the Cayman Islands office of KPMG Peat Marwick for 23 years. Since retiring in July 1992, Mr. Austin has been a consultant and currently serves as Non-Executive Director on several company boards, including those of a number of structured investment vehicles, mutual funds, trust and insurance companies. He served as a Director of the Cayman Islands Monetary Authority from January 1997 and was appointed Chairman of the Board in January 2003, a position he held until his retirement on 31 July 31 2004. He has also served on a variety of other Government committees and Government related boards, including the Cayman Islands Agricultural and Industrial Development Board, as Chairman; the Stock Exchange Committee; and the Government/Private Sector Consultative Committee. In 1990 Mr. Austin was awarded an MBE by Her Majesty the Queen in recognition of services to the public and business community.

Deputy Chairman: Paul Anderton, BA(Hons), FCA

Paul Anderton is a Fellow of the Institute of Chartered Accountants in England and Wales. He had a career with Pricewaterhouse Coopers in Cayman from 1983 to June 2010, serving as audit engagement leader for a wide variety of clients in the financial services industry (including banks, trust companies, hedge funds, special purpose vehicles, captive insurance and reinsurance companies) as well as several non-financial services entities. He was the firm's Assurance Services leader and Risk Management Partner and is a past president of Cayman Islands Society of Professional Accountants.

Managing Director: Donald Cockburn, FCPA, FCA

Donald (Don) Cockburn served as Vice President of Canadian Public Accountability Board (CPAB) from 2004 to 2010 where he led numerous inspections of accounting firms of various sizes and served on CPAB's Management Committee. He was also a Member of the Canadian Institute of Chartered Accountants (CICA) Auditing Standards Committee from 1982 to 1988, serving as Chair of that Committee from 1987 to 1988. The Auditing Standards Committee (now the Auditing and Assurance Standards Committee) is charged with setting auditing and assurance standards in Canada. He acted as a consultant to Ernst & Young Canada, Ernst & Young International and the CICA auditing standards department (now the Auditing and Assurance Standards department) from 1997 to 2003. Prior to that, he was with Ernst & Young Canada as a client handling partner and as a partner in the National Audit Office for 29 years in total.

Mr. Cockburn was the Editor of the Audit column (now the Assurance column) for the CA Magazine (now the CPA Magazine) from 1984 to 1996, personally authoring numerous articles on auditing, and taught auditing courses both at the undergraduate and graduate levels at the School of Accountancy (now the School of Accounting and Finance), University of Waterloo, Canada.

Mr. Cockburn served as a consultant to the Auditors Oversight Authority from May 2012 until August 2013 when he was appointed its Managing Director.

Director: Kenneth Jefferson, FCA, JP

Kenneth Jefferson was appointed Financial Secretary on 1 November 2004. As Financial Secretary, he is the chief policy advisor to the Premier and Minister of Finance and has overall responsibility for all aspects of the government's regulatory, fiscal and budget management operations.

Prior to joining the Civil Service, Mr. Jefferson worked in public accounting in both the Cayman Islands and London, England offices of Price Waterhouse (now PricewaterhouseCoopers) and Ernst & Young. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Director: Alister Mason, PhD, FCPA, FCA, FCMA

Alister Mason is a consultant in Toronto who has worked with the Ontario Securities Commission, the Canadian Institute of Chartered Accountants (CICA) and the International Federation of Accountants. Previously, he was with Deloitte & Touche and its predecessor firms for over thirty years, which included periods as an audit partner in the Toronto Office and in the Canadian firm's National Office. He then served as Director of the School of Accounting and Finance at the University of Waterloo (the largest such School in Canada), followed by four years with the Canadian Public Accountability Board (Canada's independent audit regulator).

Mr. Mason has been active in professional bodies and the community. He is a Past President of the Canadian Academic Accounting Association. The CICA commissioned him to write

comprehensive studies on *Related Party Transactions* and *Professional Judgment in Financial Reporting*; he has also written several other studies and dozens of articles. His doctoral dissertation, from the University of Lancaster in the UK, was published under the title *The Development of International Financial Reporting Standards*. Also, he has made presentations at a training conference of the International Forum of Independent Audit Regulators.

Director: Alastair Swarbrick, MA (Hons),CPFA

Alastair Swarbrick is the Auditor General of the Cayman Islands and has overall responsibility for the management and work of the Office of the Auditor General. He has over 20 years experience in public auditing across a variety of sectors and working for a number of organizations including the UK National Audit Office in London and Audit Scotland, where he was an Assistant Director of Audit overseeing a portfolio of audits and leading the Business Improvement Unit which was responsible for developing and managing projects to improve the way that Audit Scotland delivered its work. He is a member of the Chartered Institute of Public Finance and Accountancy.

All board members except Mr. Cockburn were appointed with effect from 2 May 2012. Mr. Cockburn was appointed on 19 August 2013.



Auditors Oversight Authority

CAYMAN ISLANDS

Audited Financial Statements

June 30, 2014

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Auditors Oversight Authority
Statement of Responsibility for Financial Statements
30 June 2014

These financial statements have been prepared by the Auditors Oversight Authority in accordance with the provisions of the Public Management and Finance Law (2013 Revision). The financial statements comply, in all material respects, with generally accepted accounting principles as defined in International Public Sector Accounting Standards.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the Public Management and Finance Law (2013 Revision).

The Board of the Authority and the Managing Director are responsible for establishing, and have established and maintained a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorized by law, and properly record the financial transactions of the Auditors Oversight Authority.

The Board of the Authority and the Managing Director are responsible for the preparation of the Auditors Oversight Authority financial statements and for the judgments made in them.

The financial statements fairly present the financial position of the Auditors Oversight Authority as at 30 June 2014, and its financial performance, cash flows and changes in net worth for the financial year then ended.

To the best of our knowledge we represent that these financial statements:

- (a) completely and reliably reflect the financial transactions of the Auditors Oversight Authority for the year ended 30 June 2014;
- (b) fairly reflect the financial position as at 30 June 2014 and financial performance for the year ended 30 June 2014; and
- (c) comply with International Public Sector Accounting Standards as developed by the International Public Sector Accounting Standards Board under the auspices of the International Federation of Accountants.

The Office of the Auditor General conducts an independent audit and expresses an opinion on the accompanying financial statements. The Office of the Auditor General has been provided access to all the information necessary to conduct an audit in accordance with International Standards on Auditing.



Michael Austin MBE, FCA
Chairman

Date: 31 October 2014



Donald Cockburn, FCPA, FCA
Managing Director

Date: 31 October 2014

AUDITOR GENERAL'S REPORT

To the Board of Directors of Auditors Oversight Authority

I have audited the accompanying financial statements of the Auditors Oversight Authority, which comprise the statement of financial position as at 30 June 2014 and the statement of financial performance, statement of changes in net worth and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 4 to 17 in accordance with the provisions of Section 28(3) of the *Auditors Oversight Law, 2011* and section 60(1)(a)(ii) of the *Public Management and Finance Law (2013 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 on 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 I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Audit Oversight Authority as at 30 June 2014 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards ("IPSAS").



Garnet Harrison, CA
Acting Auditor General

31 October 2014
Cayman Islands

AUDITORS OVERSIGHT AUTHORITY
Statement of Financial Position
As at 30 June 2014
(Stated in Cayman Islands Dollars)

2012/13			2013/14	Final	Variance
Prior Year		Note	Current Year	Budget	(Budget vs
Actual			Actual		Actual)
	ASSETS				
	Current Assets				
291,637	Cash and cash equivalents	3	212,238	277,157	(64,919)
-	Receivables	4	78,750	-	78,750
5,599	Prepayments		4,625	-	4,625
297,236	Total Current Assets		295,613	277,157	18,456
	Non-Current Assets				
-	Property, plant and equipment	5	8,957	-	8,957
-	Total Non-Current Assets		8,957	-	8,957
297,236	Total Assets		304,570	277,157	27,413
	LIABILITIES				
	Current Liabilities				
160,724	Unearned revenue	7	187,042		187,042
28,512	Trade payables	6	4,148	-	4,148
8,000	Other payables and accruals	6	13,380	-	13,380
197,236	Total Current Liabilities		204,570	-	204,570
197,236	Total Liabilities		204,570	-	204,570
100,000	NET ASSETS		100,000	277,157	(177,157)
	NET WORTH				
100,000	Contributed capital		100,000	100,000	-
-	Accumulated surplus		-	177,157	(177,157)
100,000	Total Net Worth		100,000	277,157	(177,157)

The accompanying notes on pages 8-17 form an integral part of these financial statements.

AUDITORS OVERSIGHT AUTHORITY
Statement of Financial Performance
For the year ended 30 June 2014
(Stated in Cayman Islands Dollars)

2012/13 Prior Year Actual		Note	2013/14 Current Year Actual	Final Budget	Variance (Budget vs Actual)
<u>179,276</u>	Revenue	7	288,682	325,000	(36,318)
<u>179,276</u>	Total Revenue		<u>288,682</u>	<u>325,000</u>	<u>(36,318)</u>
	Expenses				
-	Personnel costs	8,11	115,917	101,667	14,250
108,000	Directors' fees	11	108,000	108,000	-
61,632	Other operating expenses	9	64,024	106,150	(42,126)
-	Depreciation	5	741	-	741
<u>169,632</u>	Total Expenses		<u>288,682</u>	<u>315,817</u>	<u>(27,135)</u>
<u>9,644</u>	Surplus for the year		<u>-</u>	<u>9,183</u>	<u>(9,183)</u>

The accompanying notes on pages 8-17 form an integral part of these financial statements

AUDITORS OVERSIGHT AUTHORITY
Statement of Changes in Net Worth
For the Year Ended 30 June 2014
(Stated in Cayman Islands Dollars)

	Contributed Capital	Accumulated Surplus/(deficit)	Total Net worth	Final Budget	Variance (Budget vs Actual)
Balance at 30 June 2012	-	(9,644)	(9,644)	-	(9,644)
Equity Investment from Cabinet	100,000		100,000	100,000	-
Surplus for the year 2012/13		9,644	9,644	-	9,644
Repayment of surplus to Cabinet	-		-	-	-
Balance at 30 June 2013	100,000		100,000	100,000	-
Balance at 30 June 2013	100,000		100,000	267,974	(167,974)
Surplus for the year 2013/14			-	9,183	(9,183)
Repayment of surplus to Cabinet	-		-	-	-
Balance at 30 June 2014	100,000		100,000	277,157	(177,157)

The accompanying notes on pages 8-17 form an integral part of these financial statements.

AUDITORS OVERSIGHT AUTHORITY
Statement of Cash Flows
For the Year Ended 30 June 2014
(Stated in Cayman Islands Dollars)

2012/13 Prior Year Actual		Note	2013/14 Current Year Actual	Final Budget	Variance (Budget vs Actual)
CASH FLOWS FROM OPERATING ACTIVITIES					
	<i>Receipts</i>				
358,000	Outputs to Cabinet		236,250	315,000	(78,750)
-	Other receipts		-	10,000	(10,000)
	<i>Payments</i>				
(108,000)	Directors' fees		(128,000)	(126,000)	(2,000)
-	Personnel costs		(115,917)	(101,667)	(14,250)
(58,363)	Operating expenses		(62,034)	(111,813)	49,779
191,637	Net cash flows from operating activities	10	(69,701)	(14,480)	(55,221)
CASH FLOWS FROM INVESTING ACTIVITIES					
-	Purchase of property, plant and equipment		(9,698)	-	(9,698)
-	Net cash flows from investing activities		(9,698)	-	(9,698)
CASH FLOWS FROM FINANCING ACTIVITIES					
100,000	Equity Investment		-	-	-
100,000	Net cash flows from financing activities		-	-	-
291,637	Net increase/(decrease) in cash and cash equivalents		(79,399)	(14,480)	(64,919)
-	Cash and cash equivalents at beginning of year		291,637	291,637	-
291,637	Cash and cash equivalents at end of year		212,238	277,157	(64,919)

The accompanying notes on pages 8-17 form an integral part of these financial statements.

1. Establishment and Principal Activity

The Auditors Oversight Authority (the “Authority” or the “AOA”) was established as an independent entity by *The Auditors Oversight Authority Law, 2011* (the “Law”), and commenced operations on 1 May 2012 when the Law came into force. The Authority is responsible for the regulation and supervision of auditors who audit the accounts of market traded companies from or within the Cayman Islands, which auditors are required by the Law to be entered in a register maintained by the Authority (“Recognized Auditors”). The Authority subjects “Recognized Auditors” to its systems of oversight, quality assurance, investigation and penalties by, inter alia, monitoring compliance by Recognized Auditors with the Rules of the Authority.

From formation through to 30 June 2012, the funding was provided partly by the Cayman Islands Monetary Authority (“CIMA”) and partly by the Cayman Islands Government. For the years ended 30 June 2014 and 2013, funding was provided by the Cayman Islands Government. Whilst the Authority expects to derive revenue from Recognized Auditors in future, it is likely that it will be dependent upon Government funding for the foreseeable future; the Board believes that it is the policy of the present Government to continue to provide such funding.

As at 30 June 2014, the Auditors Oversight Authority had one employee (2013: none). The Auditors Oversight Authority is located at the Government Administration Building, Elgin Avenue, George Town, Grand Cayman, Cayman Islands. Correspondence may be sent to P.O. Box 133, Grand Cayman KY1-9000, Cayman Islands.

2. Significant Accounting Policies

(a) Basis of preparation

These financial statements have been prepared in accordance with International Public Sector Accounting Standards (“IPSAS”) issued by the International Federation of Accountants and its International Public Sector Accounting Standards Board using the accrual basis of accounting.

There are no known accounting standards that have been adopted by the IPSAS Board for use in future years that will have a significant impact on these financial statements other than enhanced disclosures.

These financial statements have been prepared on a going concern basis and the accounting policies set out below have been applied consistently to all periods presented. The financial statements are presented in Cayman Islands dollars using the historical cost basis of accounting except as modified for the revaluation of financial instruments at fair value. (See item (j) below).

2. Significant Accounting Policies (Continued)

(b) Comparative amounts

The comparative amounts are the audited amounts for the year ended 30 June 2013.

(c) Use of estimates

The preparation of financial statements in accordance with IPSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenue and expense during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the reporting period and in any future periods that are affected by those revisions.

(d) Budget amounts

The 2013/14 original budget amounts were prepared using the accrual basis of accounting and, except as discussed in item “b” of Note 12, the accounting policies have been consistently applied with the actual financial statement presentation. The amounts shown in these financial statements were included in the 2013/14 Annual Budget Statement of the Government of the Cayman Islands and were not revised after being tabled in the Legislative Assembly on 7 October 2013.

(e) Foreign currency translation

Assets and liabilities denominated in currencies other than Cayman Islands dollars are translated at exchange rates in effect at the financial statement date. Revenue and expense transactions denominated in currencies other than Cayman Islands dollars are translated at exchange rates at the date of those transactions. Gains and losses arising on translation are included in the statement of financial performance.

(f) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are considered as cash held on demand and fixed deposits with an original maturity of three months or less.

2. Significant Accounting Policies (continued)

(g) *Accounts receivable*

Accounts receivable are recognized initially at fair value and are subsequently reviewed for impairment. When there is objective evidence that a debt will not be collected by the Authority according to the agreed terms, a provision for bad debt is established.

(h) *Property, plant and equipment/depreciation*

Property, Plant and Equipment, is recorded at historical cost less accumulated depreciation. Items of property, plant and equipment are initially recorded at cost. When an asset is acquired for nil or nominal consideration, the asset is recognized initially at fair value, when fair value can be reliably determined, and as revenue in the statement of financial performance in the year in which the asset is acquired.

Depreciation is expensed on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment (other than land); less any estimated residual value, over its estimated useful life. Leasehold improvements are depreciated either over the unexpired period of the lease or the estimated useful life of improvements, whichever is shorter.

<i>Asset type</i>	<i>Estimated useful life</i>
Furniture and Fixtures	12 Years
Computer Hardware and Software	3 Years
Office Equipment	5 Years

(i) *Accounts Payable*

Accounts payable are recorded at the amount owing after allowing for credit notes and other adjustments.

(j) *Revenue recognition*

The Authority earns revenue primarily from the provision of Outputs to the Cabinet. Revenues are recognized when the outputs agreed in the Annual Plan and Estimates have been delivered.

(k) *Expense recognition*

Expenses are recognised when incurred.

2. Significant Accounting Policies (continued)

(l) Financial Instruments

(i) Classification

A financial asset is classified as any asset that is cash, a contractual right to receive cash or another financial asset, exchange financial instruments under conditions that are potentially favourable or an equity instrument of another enterprise. Financial assets comprise of cash and cash equivalents and accounts receivable. A financial liability is any liability that is a contractual obligation to deliver cash or another financial instrument or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable. Financial liabilities comprise of accounts payable, unearned revenue and employee entitlements.

(ii) Recognition

The Authority recognises financial assets and financial liabilities on the date it becomes party to the contractual provisions of the instrument. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognised in the statement of financial performance.

(iii) Measurement

Financial instruments are measured initially at the fair value of the consideration given or received. Subsequent to initial recognition, all financial assets and liabilities are recorded at fair value and any gains and losses arising from changes in fair value are recognized in the statement of financial performance in the period in which they arise. At 30 June 2014 and 2013 all financial assets and liabilities were carried at historical cost, which is considered to approximate fair value due to the short-term or immediate nature of these instruments.

(iv) Derecognition

A financial asset is derecognised when the Authority realises the rights to the benefits specified in the contract or loses control over any right that comprise that asset. A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled, or expired.

(m) Provisions and contingencies

Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and when it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized but are disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

2. Significant Accounting Policies (continued)

(n) Subsequent events

Post year-end events that provide additional information about the Auditors Oversight Authority position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the notes to the financial statements when material.

(o) Revenue from Non Exchange Transactions

The Authority receives various services from other government entities for which payment is made by the Cayman Islands Government. These services include administrative services from the Ministry of Financial Services, Commerce and Environment. AOA has designated these non-exchange transactions as services in-kind as defined under IPSAS 23- Revenue from non-exchange transactions. When the fair values of such services can be reliably estimated then the non-exchange transaction is recorded as an expense and an equal amount is recorded in other income as a service in-kind. When the service in-kind offered is directly related to construction or acquisition of a fixed asset, such service in-kind is recognized in the cost of the fixed asset.

No amounts were recognized in these financial statements in respect of services in-kind as management are unable to estimate the fair value of the goods and services received from other core government entities due to the lack of accounting systems to track the costs of these transactions in accordance with IPSAS 23.

3. Cash and cash equivalents

The Authority operates a chequing account with Royal Bank of Canada.

Description	2013/14 Actual	2012/13 Actual
CI\$ Operational Current Account held at Royal Bank of Canada – Cayman Islands	212,238	291,637
TOTAL	\$212,338	\$291,637

4. Receivables

The receivable balance as at 30 June 2014 represent output funding receivable from Cabinet.

Description	2013/14 Actual	2012/13 Actual
Outputs to Cabinet	78,750	-
TOTAL	\$78,750	-

5. Property, plant and equipment

	Furniture & fittings
Cost:	
As at 30 June 2013	-
Additions during the 13/14 year	9,698
As at 30 June 2014	9,698
Accumulated Depreciation:	
As at 30 June 2013	-
Charge of the year	741
As at 30 June 2014	741
Net book value:	
As at 30 June 2014	\$8,957
As at 30 June 2013	-

Prepayments at 30 June 2013 included a deposit of \$4,849 paid for fixed assets not received in the 2012-13 financial year.

6. Trade payables & Other payables and accruals

Trade payables represent the value of goods and service received for which no cash consideration has been provided as at the Statement of Financial Position date. As at 30 June 2014 and 2013, the AOA had the following payables and accruals:

Trade payables	Current	Non-Current	2013/14 Actual	2012/13 Actual
Legal fees	4,148	-	4,148	-
Directors' fees & expenses	-	-	-	22,993
Consulting fees	-	-	-	5,519
Total	\$4,148	-	\$4,148	\$28,512

Other payables & accruals	Current	Non-Current	2013/14 Actual	2012/13 Actual
Audit fees	8,000	-	8,000	8,000
IFIAR membership fees	4,350	-	4,350	-
Other accruals	1,030	-	1,030	-
Total	\$13,380	-	\$13,380	\$8,000

AUDITORS OVERSIGHT AUTHORITY
Notes to the Financial Statements
For the Year Ended 30 June 2014
(Stated in Cayman Islands Dollars)

7. Outputs to the Legislative Assembly: Revenue & Unearned revenue

The Authority provides services to the Cabinet of the Cayman Islands Government under an agreement established in the Annual Plan and Estimates. The 2013/14 Annual Plan and Estimates established legal provisions for the AOA to provide a maximum of \$315,000 in services (2013: \$340,000).

The Ownership Agreement between the Authority and the Cayman Islands Government for the 2013/14 and 2012/13 financial years required the Authority to establish the Rules governing recognized auditors and develop the oversight system for recognized auditors. As at 30 June 2014 these objectives had not been fully achieved. As the Authority was not able to make a reliable estimate of the percentage of completion of its obligations under the Ownership Agreement at 30 June 2014 or 30 June 2013, it recognized as revenue only that portion of funding from Government equal to the expenses incurred in the relevant financial year (including, for the year ended 30 June 2013, the net deficit brought forward at 1 July 2012). The balance of funding was deferred as "unearned revenue".

Unearned revenue	2013/14 Actual	2012/13 Actual
At start of year	160,724	-
Funding from Government:		
AOA 1 Auditors Oversight Authority	315,000	340,000
Revenue recognized in the year	(288,682)	(179,276)
At end of year	\$187,042	\$160,724

8. Personnel costs

Personnel costs refer to salaries, wages, health care costs, pension and other financial considerations associated with services provided by the employees of the Authority. The only personnel costs incurred by the AOA in 2013/14 related to the Managing Director; no personnel costs were incurred in 2012/13.

Description	2013/14 Actual	2012/13 Actual
Salary	91,667	-
Work permit fees	24,250	-
Total Personnel costs	\$115,917	-

AUDITORS OVERSIGHT AUTHORITY
Notes to the Financial Statements
For the Year Ended 30 June 2014
(Stated in Cayman Islands Dollars)

9. Other operating expenses

Other operating expenses include various goods and services provided to the Authority where otherwise not classified in the statement of financial performance.

Description	2013/14 Actual	2012/13 Actual
Purchase of services & legal fees	24,604	32,349
Travel and Subsistence	19,392	19,351
Audit fees - Auditor General's Office	8,000	8,000
Office rent: Government	5,831	-
IFIAR Membership fees	4,350	-
Other expenses	1,847	1,932
Total other operating expenses	\$64,024	\$61,632

Legal fees of \$19,163 (2013:nil) were incurred in 2013/14 in relation to advice on the Authority's Rules, the Regulations to the Law, and possible changes to the Law.

The Authority rents office space in the Government Administration Building at the rate of CI\$542 per month. The lease is year to year, with 6 months notice to vacate.

10. Reconciliation of surplus/(deficit) to net cash flows from operating activities

Description	2013/14 Actual	2012/13 Actual
Surplus or(Deficit) for the year	-	9,644
Depreciation charge	741	-
Decrease/(increase) in current assets	(77,776)	12,401
Increase/(decrease) in current liabilities:		
Unearned revenue	26,318	160,724
Other current liabilities	(18,984)	8,868
Net cash flows from operating activities	\$(69,701)	\$191,637

11. Related Party and key management personnel disclosures

The Auditors Oversight Authority is a wholly owned entity of the Government of the Cayman Islands from which it derives a major source of its revenue.

The Cayman Islands Financial Secretary and Auditor General are directors; neither is remunerated separately by the Authority.

11. Related Party and key management personnel disclosures (continued)

Key management personnel remuneration

Key management personnel remunerated by the AOA include the Chairman, the Deputy Chairman, the Managing Director and an independent Board member. For the 2013/14 and 2012/13 fiscal years, these individuals received the following considerations for their services:

Description	2013/14 Actual	2012/13 Actual
Salaries & other short-term employee benefits	91,667	-
Directors' fees	108,000	108,000
Total	\$199,667	\$108,000

In addition, in 2013/14 and 2012/2013 consulting fees of CI\$3,791 and CI\$26,300, respectively, were paid to the Managing Director-designate (whose position as Managing Director was formalized in August 2013).

12. Budget variances

The explanations for the significant variances from budget are:

- a. The budget assumed that all Government funding would have been received in the year to 30 June 2014. In fact, the 4th quarter's funding (CI\$78,750) was not received until August 2014. This resulted in an increase in receivables and decrease in cash compared to budget.
- b. The budget assumed that all Government funding would be recognized as revenue when receivable. As explained in Note 7, the Authority's accounting policy for revenue recognition results in deferral of part of the funding received and receivable as "unearned" in the year. This resulted in a shortfall of revenue of CI\$26,318 compared to budget. The difference in basis between the revenue recognition policy in the budget and in these financial statements also explains the variance in the "Unearned revenue" balance and, to a large extent, the difference in the "accumulated surplus" and "net worth" balances at 30 June 2014. In addition, actual revenue was \$10,000 under budget because expected revenues from billings to firms under the AOA's oversight did not materialize because the AOA was not fully operational at 30 June 2014.
- c. The variance in "Personnel costs" costs resulted from the net effect of delays in appointing (and, hence, paying) the Managing Director and higher than expected fees for his work permit.
- d. Positive variances from budget in "Other operating expenses" arose because, contrary to expectations, the Authority was not fully operational at 30 June 2014 and as a result certain budgeted expenses were not incurred.

13. Financial risk management

At 30 June 2014, the Authority held CI\$212,238 in financial instruments represented by cash and cash equivalents at one financial institution in the Cayman Islands (see Note 3). As such, the AOA is exposed to credit related losses in the event of non-performance by the financial institution. However, given the high credit rating of this financial institution, the Authority does not anticipate any material losses as a result of this concentration.

Currency and interest risk

The Authority has no significant exposure to currency exchange loss risk and interest risk.

Liquidity risk

In meeting its liquidity requirements, the Authority closely monitors its forecast cash requirements with expected cash drawdowns from the Cabinet. All financial liabilities (creditors and payables) are normally settled in less than six months from the date of the financial statements.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Authority. Financial assets which potentially expose the Authority to credit risk comprise cash and cash equivalents and accounts receivable.

The Authority is exposed to potential loss that would be incurred if the counterparty to the bank balances fails to discharge its obligation to repay. All bank balances are with one financial institution located in the Cayman Islands which management considers to be financially secure and well managed.

The Authority is also exposed to a significant concentration of credit risk in relation to accounts receivables, majority of which are due from other Government entities. No credit limits have been established. As at 30 June 2014, no provision for doubtful debts has been made as none of these assets are impaired and management considers these debts to be recoverable in full (2013: Nil).

14. Financial Instruments- fair values

As at 30 June 2014 and 2013, the carrying amount of cash deposits, receivables and trade payables approximated their fair value due to their short-term maturities.

Estimates of fair value are made at specific points in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions, economic conditions and other factors could cause significant changes in fair value estimates.