



Auditors Oversight Authority

CAYMAN ISLANDS

Annual Report
for the
Year Ended 30 June 2015

**Auditors Oversight Authority
Annual Report
for the year ended 30 June 2015**

Table of Contents

| | |
|---|-------|
| Managing Director's Report..... | i |
| Annual Board Report..... | ii |
| Board of Directors..... | iii-v |
| Audited Financial Statements: 30 June 2015 | |
| Statement of Responsibility for Financial Statements..... | 1 |
| Auditor General's Report..... | 2-3 |
| Statement of Financial Position..... | 4 |
| Statement of Financial Performance..... | 5 |
| Statement of Cash Flows..... | 6 |
| Statement of Changes in Net Worth..... | 7 |
| Notes to the Financial Statement..... | 8-18 |

**Auditors Oversight Authority
Managing Director's Report
for the year ended 30 June 2015**

I am pleased to present my third report as Managing Director of the Auditors Oversight Authority (AOA) and to report we made considerable progress during the year.

First of all we were able to complete registration of four firms with us and complete our first inspection of a firm in May 2015 (a Big Four firm). The inspection went smoothly thanks to the assistance and co-operation of the firm and no requirements, restrictions or sanctions were imposed on the firm.

Accordingly the process of applying for equivalence status to the relevant body in the European Union is underway now that we have completed an inspection of a firm. Once that application has been made we will proceed with applying for equivalence status to the relevant body in Japan.

Secondly on the non-inspection side we were able to complete and publish our AOA web site (www.aoa.ky), finalize regulations to the Auditors Oversight Law (the Law) which were published in November 2014 and make substantial progress toward having our proposed amendments to the Law approved by the Legislative Assembly.

Donald Cockburn

Managing Director

10 August 2015

**Auditors Oversight Authority
Annual Board Report
for the year ended 30 June 2015**

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

Significant activities during the period 1 July 2014 to 30 June 2015 were as follows:

- By far the most significant event during the year was the registration of four firms and the completion of AOA’s first inspection of an audit firm registered with AOA. The inspection of a Big Four audit firm was conducted during May 2015. The inspection was facilitated by the full cooperation of the audit firm and no requirements, restrictions or sanctions were required;
- A second significant event was the completion and publication of the AOA web site (www.aoa.ky);
- A third significant event was the publication in November 2014 of the regulations under the Law; and
- A fourth significant event was the completion of the drafting of amendments to the Law and submission of the amendments to government for approval by the Legislative Assembly.

Other activities during the period include:

- Dialoguing from time to time with the EU and the Japanese audit regulator regarding our efforts to apply for “equivalency” status with them;
- Dialoguing from time to time with Cayman Islands Society of Professional Accountants (CISPA), Cayman Islands Monetary Authority (CIMA) and Cayman Islands Stock Exchange (CSX) regarding matters of mutual interest; and
- The Managing Director, on behalf of AOA, attended at the International Forum of Independent Audit Regulators annual plenary meeting in April 2015.

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 initially appointed with effect from 2 May 2012. Mr. Cockburn was appointed on 19 August 2013. Messrs. Austin, Anderton and Mason were re-appointed for a further three year term from 2 May 2015.



Auditors Oversight Authority

CAYMAN ISLANDS

**Audited Financial Statements
for the
Fiscal Year Ended 30 June 2015**

Table of Contents

| | |
|---|------|
| Statement of Responsibility for Financial Statements..... | 1 |
| Auditor General's Report..... | 2-3 |
| Statement of Financial Position..... | 4 |
| Statement of Financial Performance..... | 5 |
| Statement of Changes in Net Worth..... | 6 |
| Statement of Cash Flows..... | 7 |
| Notes to the Financial Statements..... | 8-18 |

**Auditors Oversight Authority
Statement of Responsibility for Financial Statements
30 June 2015**

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 2015, 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 2015;
- (b) fairly reflect the financial position as at 30 June 2015 and financial performance for the year ended 30 June 2015; 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: *OCT 30, 2015*


Donald Cockburn
Donald Cockburn, FCPA, FCA
Managing Director
Date: 30 October 2015

AUDITOR GENERAL'S REPORT

To the Board of Directors of the 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 2015 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 18 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 Responsibilities 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 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.

AUDITOR GENERAL'S REPORT (continued)

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Auditors Oversight Authority as at 30 June 2015 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.



Garnet Harrison, CPA, CA
Acting Auditor General

30 October 2015
Cayman Islands

| AUDITORS OVERSIGHT AUTHORITY STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015 (Expressed in Cayman Islands dollars) | | | | | |
|---|----------------------------------|--------------------------------|---------------------------------|--|---------------|
| 30 June 2014 Prior Year Actual | | Current Year Actual | 2014/15 Final Budget | Variance (Budget vs Actual) | |
| | Note | | | | |
| Current Assets | | | | | |
| 212,238 | Cash and cash equivalents | 3 | 200,465 | 258,500 | (58,035) |
| 78,750 | Receivables | 4 | 78,750 | - | 78,750 |
| 4,625 | Other receivables & Prepayments | | 33,901 | - | 33,901 |
| 295,613 | Total Current Assets | | 313,116 | 258,500 | 54,616 |
| Non-Current Assets | | | | | |
| 8,957 | Property, plant and equipment | 5 | 9,598 | - | 9,598 |
| 8,957 | Total Non-Current Assets | | 9,598 | - | 9,598 |
| 304,570 | Total Assets | | 322,714 | 258,500 | 64,214 |
| Current Liabilities | | | | | |
| 187,042 | Unearned revenue | 7 | - | - | - |
| 4,148 | Trade payables | 6 | 6,000 | 8,000 | (2,000) |
| 13,380 | Other payables and accruals | 6 | 22,286 | - | 22,286 |
| 204,570 | Total Current Liabilities | | 28,286 | 8,000 | 20,286 |
| 204,570 | Total Liabilities | | 28,286 | 8,000 | 20,286 |
| 100,000 | Net Assets | | 294,428 | 250,500 | 43,928 |
| NET WORTH | | | | | |
| 100,000 | Contributed capital | | 100,000 | 100,000 | - |
| - | Accumulated surplus | | 194,428 | 150,500 | 43,928 |
| 100,000 | Total Net Worth | | 294,428 | 250,500 | 43,928 |
| The accounting policies and notes on pages 8-18 form an integral part of these financial statements. | | | | | |

**AUDITORS OVERSIGHT AUTHORITY
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2015
(Expressed in Cayman Islands dollars)**

| Prior Year Actual | Note | Current Year Actual | 2014/15 Final Budget | Variance (Budget vs Actual) |
|----------------------|--|------------------------|-------------------------|-----------------------------------|
| | Revenue | | | |
| 288,682 | Government of the Cayman Islands | 7 | 502,042 | 315,000 |
| - | Fees | 8 | 28,954 | 10,000 |
| 288,682 | Total Revenue | | 530,996 | 205,996 |
| | Expenses | | | |
| 115,917 | Personnel costs | 9,12 | 122,456 | 120,000 |
| 108,000 | Directors' fees | 12 | 108,000 | 108,000 |
| 64,024 | Other operating expenses | 10 | 105,172 | 112,000 |
| 741 | Depreciation | 5 | 940 | - |
| 288,682 | Total Expenses | | 336,568 | 340,000 |
| - | Surplus or (Deficit) for the year | | 194,428 | (15,000) |
| | | | | 209,428 |

The accounting policies and notes on pages 8-18 form an integral part of these financial statements.

AUDITORS OVERSIGHT AUTHORITY
STATEMENT OF CHANGES IN NET WORTH
FOR THE YEAR ENDED 30 JUNE 2015
(Expressed in Cayman Islands dollars)

Attributable to Cayman Islands Government

| | Contributed Capital | Other Reserves | Revaluation Reserve | Accumulated Surplus/(deficits) | Total net worth | Variance (Budget vs Actual) |
|---|---------------------|----------------|---------------------|--------------------------------|-----------------|-----------------------------|
| Balance at 30 June 2013 brought forward | 100,000 | - | - | - | 100,000 | |
| Equity Investment from Cabinet | - | | | | - | |
| Surplus/(deficit) for the year 2013/14 | | | | - | - | |
| Repayment of surplus/Dividends to Cabinet | - | | - | - | - | |
| Balance at 30 June 2014 carried forward | 100,000 | - | - | - | 100,000 | - |

Attributable to Cayman Islands Government

| | Contributed Capital | Other Reserves | Revaluation Reserve | Accumulated Surplus/(deficits) | Total net worth | 2014/15 Final Budget | Variance (Budget vs Actual) |
|---|---------------------|----------------|---------------------|--------------------------------|-----------------|----------------------|-----------------------------|
| Balance at 30 June 2013 brought forward | 100,000 | - | - | - | 100,000 | 265,500 | (165,500) |
| Surplus/(deficit) for the year 2014/15 | | | | 194,428 | 194,428 | (15,000) | 209,428 |
| Repayment of surplus/Dividends to Cabinet | - | | - | - | - | - | - |
| Balance at 30 June 2015 carried forward | 100,000 | - | - | 194,428 | 294,428 | 250,500 | 43,928 |

The accounting policies and notes on pages 8-18 form an integral part of these financial statements.

| Prior Year Actual | AUDITORS OVERSIGHT AUTHORITY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2015 (Expressed in Cayman Islands dollars) | | | |
|---|---|------------------------------------|-------------------------------------|--|
| | Note | Current Year Actual | 2014/15 Final Budget | Variance (Budget vs Actual) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| 236,250 | Outputs to Cabinet | 315,000 | 315,000 | - |
| - | Fees | 4,000 | 10,000 | (6,000) |
| (128,000) | Directors' fees | (102,000) | (108,000) | 6,000 |
| (115,917) | Personnel costs | (120,900) | (120,000) | (900) |
| (62,034) | Operating expenses | (106,292) | (112,000) | 5,708 |
| (69,701) | Net cash flows from operating activities | 11 | (10,192) | (15,000) |
| | | | | 4,808 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| (9,698) | Purchase of property, plant and equipment | (1,581) | - | (1,581) |
| (9,698) | Net cash flows from investing activities | | (1,581) | - |
| | | | | (1,581) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| - | Equity Investment | - | - | - |
| - | Net cash flows from financing activities | - | - | - |
| (79,399) | Net increase/(decrease) in cash and cash equivalents | (11,773) | (15,000) | 3,227 |
| 291,637 | Cash and cash equivalents at beginning of year | 212,238 | 273,500 | (61,262) |
| 212,238 | Cash and cash equivalents at end of year | 200,465 | 258,500 | (58,035) |
| | The accounting policies and notes on pages 8-18 form an integral part of these financial statements. | | | |

**Auditors Oversight Authority
Notes to the Financial Statements
For the year ended 30 June 2015
(Stated in Cayman Islands Dollars)**

1. Establishment and principal activities

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. The Authority began registering auditors in January 2015 and carried out its first inspection of a Recognized Auditor in May 2015.

For the year ended 30 June 2015, materially all (2014: all) of the Authority’s funding was provided by the Cayman Islands Government. Whilst the Authority expects to derive increasing 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 2015, the Auditors Oversight Authority had one employee (2014: one). 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.

**Auditors Oversight Authority
Notes to the Financial Statements
For the year ended 30 June 2015
(Stated in Cayman Islands Dollars)**

Significant accounting policies (continued)

(b) Comparative amounts

The comparative amounts are the audited amounts for the year ended 30 June 2014.

(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 2014/15 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 2014/15 Annual Budget Statement of the Government of the Cayman Islands and were not revised after being tabled in the Legislative Assembly on 25 June 2014.

(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.

**Auditors Oversight Authority
Notes to the Financial Statements
For the year ended 30 June 2015
(Stated in Cayman Islands Dollars)**

2. Significant accounting policies (continued)

(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.

(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

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.

| <u>Asset Type</u> | <u>Estimated Useful Life</u> |
|--------------------|------------------------------|
| Furniture | 12 years |
| Office Equipment | 5 years |
| Computer Equipment | 3 years |

(i) Revenue recognition

- i. Outputs to the Cabinet: Revenues are recognized when the outputs agreed in the Annual Plan and Estimates have been delivered.

- ii. Fees: Application and de-registration fees are recognized as earned when the related event is complete. Annual fees are recognized as earned over the period to which they relate. Inspection fees are recognized when the related inspection is complete.

**Auditors Oversight Authority
Notes to the Financial Statements
For the year ended 30 June 2015
(Stated in Cayman Islands Dollars)**

2. Significant accounting policies (continued)

iii. Financial sanctions: Financial sanctions imposed on those overseen by the Authority are recognised as revenue on receipt.

(j) Expense recognition

Expenses are recognised when incurred.

(k) Financial Instruments

i Classification: A financial asset is 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 are comprised of cash and cash equivalents and trade receivables.

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 are comprised of trade payables and other payables and accruals.

ii Recognition: The Authority recognizes financial assets and financial liabilities on the date it becomes party to the contractual provisions of the instrument.

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 2015 and 2014 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 derecognized when the Authority realizes the rights to the benefits specified in the contract or loses control over any right that comprise that asset. A financial liability is derecognized when it is extinguished, that is when the obligation is discharged, cancelled or expired.

**Auditors Oversight Authority
Notes to the Financial Statements
For the year ended 30 June 2015
(Stated in Cayman Islands Dollars)**

2. Significant accounting policies (continued)

(l) 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.

(m) 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.

(n) 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. The Authority 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 are 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.

**Auditors Oversight Authority
Notes to the Financial Statements
For the year ended 30 June 2015
(Stated in Cayman Islands Dollars)**

3. Cash and cash equivalents

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

| Description | Actual 2014/15 | Prior Year Actual |
|--|-----------------------|--------------------------|
| CI\$ Operational Current Account held at Royal Bank of Canada – Cayman Islands | 200,465 | 212,238 |
| Total | \$200,465 | \$212,338 |

4. Receivables

The receivable balance as at 30 June 2015 represent output funding receivable from Cabinet.

| Description | Actual 2014/15 | Prior Year Actual |
|----------------------------------|-----------------------|--------------------------|
| Government of the Cayman Islands | 78,750 | 78,750 |
| Total | \$78,750 | \$78,750 |

5. Property, plant and equipment

| Furniture & Computer equipment | | |
|---|-----------------------|--------------------------|
| | Actual 2014/15 | Prior Year Actual |
| Cost: | | |
| At start of year | 9,698 | - |
| Additions | 1,581 | 9,698 |
| Disposals | - | - |
| At end of year | 11,279 | 9,698 |
| | | |
| Accumulated Depreciation: | | |
| At start of year | 741 | - |
| Charge for the year | 940 | 741 |
| Accumulated depreciation on disposals | - | - |
| At end of year | 1,681 | 741 |
| | | |
| Net book value: | \$9,598 | \$8,957 |

**Auditors Oversight Authority
Notes to the Financial Statements
For the year ended 30 June 2015
(Stated in Cayman Islands Dollars)**

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 2015 and 2014, the AOA had the following payables and accruals:

| Trade payables | Current | Non- Current | Actual 2014/15 | Prior Year Actual |
|-----------------------|----------------|-------------------------|---------------------------|--------------------------|
| Legal fees | - | - | - | 4,148 |
| Directors' fees | 6,000 | - | 6,000 | - |
| Total | \$6,000 | - | \$6,000 | \$4,148 |

| Other payables & accruals | Current | Non- Current | Actual 2014/15 | Prior Year Actual |
|--|-----------------|-------------------------|---------------------------|--------------------------|
| Audit fees | 9,000 | - | 9,000 | 8,000 |
| Inspection costs | 9,841 | - | 9,841 | - |
| IFIAR membership fees | - | - | - | 4,350 |
| Other accruals | 3,445 | - | 3,445 | 1,030 |
| Total | \$22,286 | - | \$22,286 | \$13,380 |

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 2014/15 Annual Plan and Estimates established legal provisions for the AOA to provide a maximum of \$315,000 in services (2014: \$315,000).

The Ownership Agreement between the Authority and Government for the 2014/15 and 2013/14 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, it recognized as revenue only that portion of funding from Government equal to the expenses incurred in the financial year then ended and the balance of funding was deferred as "unearned revenue".

**Auditors Oversight Authority
Notes to the Financial Statements
For the year ended 30 June 2015
(Stated in Cayman Islands Dollars)**

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

As at 30 June 2015, the Authority had met the objectives (including publishing its Rules, commencing the registration of auditors and conducting an inspection of a Recognized Auditor) and, accordingly, all funding received and receivable from Government for the year ended 30 June 2015, and all revenue deferred as at 30 June 2014 was recognized as revenue for the financial year ended 30 June 2015.

| Unearned revenue | Actual 2014/15 | Prior Year Actual |
|--------------------------------|-----------------------|--------------------------|
| At start of year | 187,042 | 160,724 |
| Funding from Government | 315,000 | 315,000 |
| Revenue recognized in the year | (502,042) | (288,682) |
| At end of year | \$- | \$187,042 |

8. Fees

| Description | Actual 2014/15 | Prior Year Actual |
|--------------------------|-----------------------|------------------------------|
| Registration fees | 4,000 | - |
| Inspection fees | 24,954 | - |
| Total fee revenue | \$28,954 | \$- |

9. 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 in 2014/15 and 2013/14 related to the Managing Director.

| Description | Actual 2014/15 | Prior Year Actual |
|------------------------------|-----------------------|------------------------------|
| Salary | 110,000 | 91,667 |
| Work permit fees | 10,700 | 24,250 |
| Medical insurance | 1,756 | - |
| Total Personnel costs | \$122,456 | \$115,917 |

**Auditors Oversight Authority
Notes to the Financial Statements
For the year ended 30 June 2015
(Stated in Cayman Islands Dollars)**

10. 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 | Actual 2014/15 | Prior Year Actual |
|---------------------------------------|-----------------------|--------------------------|
| Inspection costs | 24,954 | - |
| Purchase of services & legal fees | 19,385 | 24,604 |
| Travel and subsistence | 30,562 | 19,392 |
| Audit fees - Auditor General's Office | 9,000 | 8,000 |
| Office rent: Government | 6,500 | 5,831 |
| IFIAR membership fees | 10,005 | 4,350 |
| Other expenses | 4,766 | 1,847 |
| Total other operating expenses | \$105,172 | \$64,024 |

Inspection costs comprise fees paid to and expenses incurred by the Institute of Chartered Accountants in England and Wales, which is contracted to provide resources for the Authority's inspections.

Legal fees of \$13,297 (2014: \$19,163) were incurred in 2014/15 in relation to advice on the Authority's Rules, the Regulations to the Law, possible changes to the Law and matters relating to the Managing Director's work permit.

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.

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

| Description | Actual 2014/15 | Prior Year Actual |
|---|-----------------------|--------------------------|
| Surplus or(Deficit) for the year | 194,428 | - |
| Depreciation charge | 940 | 741 |
| Decrease/(increase) in current assets | (29,276) | (77,776) |
| Increase/(decrease) in current liabilities: | | |
| Unearned revenue | (187,042) | 26,318 |
| Other current liabilities | 10,758 | (18,984) |
| Net cash flows from operating activities | \$ (10,192) | \$ (69,701) |

**Auditors Oversight Authority
Notes to the Financial Statements
For the year ended 30 June 2015
(Stated in Cayman Islands Dollars)**

12. 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.

Key management personnel remunerated by the AOA include the Chairman, the Deputy Chairman, the Managing Director and an independent Board member. For the 2014/15 and 2013/14 fiscal years, these individuals received the following considerations for their services:

| Description | Actual 2014/15 | Prior Year Actual |
|---|-----------------------|--------------------------|
| Salaries & other short-term employee benefits | 111,756 | 91,667 |
| Directors' fees | 108,000 | 108,000 |
| Total | \$219,756 | \$199,667 |

13. Budget variances

The explanations for the significant variances from budget are:

- (a) Current assets: The budget assumed that all Government funding would have been received in the year to 30 June 2015 whereas the 4th quarter's funding (CI\$78,750) had not been received by that date. Furthermore, the budget did not include provision for inspection fees receivable at 30 June 2015 because the timing of inspections was uncertain at the time the budget was produced. These matters resulted in an increase in receivables and decrease in cash compared to budget.
- (b) Revenue: 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 if the operational objectives agreed with Government have not been fully met (as was the case at 30 June 2014). These operational objectives were fully met in the year ended 30 June 2015 and, accordingly, deferred revenue was recognized as earned and this resulted in a significant variance to budget for revenue and net surplus for the year. In addition, fee revenue was over budget because of inspection fees which were not envisaged in the budget because of the uncertainty of the timing of inspections.

**Auditors Oversight Authority
Notes to the Financial Statements
For the year ended 30 June 2015
(Stated in Cayman Islands Dollars)**

14. Financial risk management

Credit risk

At 30 June 2015, the Authority held CI\$200,465 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 or 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.

15. Financial Instruments fair values

As at 30 June 2015 and 2014, 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.