



Auditors Oversight Authority

CAYMAN ISLANDS

Annual Report
for the
Year Ended 31 December 2018

Auditors Oversight Authority
Annual Report
for the year ended 31 December 2018

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Auditors Oversight Authority

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Managing Director's Report 2018

I am pleased to present my sixth report as Managing Director of the Auditors Oversight Authority (AOA) and to report on developments during the year ended 31 December 2018.

Our efforts during the year explored expanding the scope of our inspection activities. Progress has been made in this regard however, much work remains in this area.

The process for applying to the relevant body in the European Commission (EC) for equivalence status continues. We have responded to the EC questions received during the year and are awaiting to hear from the EC with respect to our submissions.

AOA continues to be a member of the International Forum of Independent Audit Regulators (IFIAR) and attends at their annual Plenary Meeting. This year the Plenary Meeting was held in Canada (Ottawa) and notwithstanding the inclement weather was well attended and well received.

After a year's hiatus we resumed conducting inspections in 2018. We inspected one firm and the inspection did not reveal any matters which would require the imposition of requirements, restrictions or sanctions on the firm.

As mentioned in my previous report as Managing Director of AOA, AOA is in the process of searching for a person to replace me as Managing Director of AOA. We were not successful in doing so in fiscal 2018 but will continue efforts in 2019 to engage my successor as I have indicated my desire to retire as Managing Director at the conclusion of my contract in August 2019.

Donald Cockburn FCPA, FCA
Managing Director
17 January 2019



Auditors Oversight Authority

CAYMAN ISLANDS

Annual Board Report for the year ended 31 December 2018

Significant events during the period 1 January 2018 to 31 December 2018 were as follows:

- An inspection of one firm was carried out during the year ended 31 December 2018. The inspection did not reveal any matters which would require the imposition of requirements, restrictions or sanctions on the firm.
- AOA had previously applied to the relevant body within the European Commission (EC) for equivalency status. An EC decision dated 25 July 2016 extended our transitional status pending the collection by the EU of additional information from us. During 2018 we received a formal request to provide specified information which we have submitted and are now awaiting a response from the EC.
- We continue our assessment of the desirability of expanding the scope of our activities. Consultations were held with all stakeholders, including the Cayman Islands Institute of Professional Accountants, the Cayman Islands Monetary Authority and Government. We anticipate finalizing deliberations and producing a formal policy paper in 2019.
- The Managing Director, on behalf of AOA, attended at the IFIAR annual Plenary Meeting held in Ottawa in April 2018.
- We continue our search for a Caymanian replacement for our Managing Director who has announced his intention to retire from the position in August 2019 when his contract expires.

17 January 2019

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 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: Sue Winspear, CPFA

Sue Winspear joined the board when she became Auditor General of the Cayman Islands in July 2016. Prior to that Sue was Executive Leader Local Services with the UK's National Audit Office from January 2014. Sue was a NAO executive board member and part of the senior leadership team and held specific responsibility for the NAO's work on local government, education and health as well as communications and external relations.

Between 2009 and 2014, Sue was a Senior Civil Servant being Director General Finance & Corporate Services latterly in the Department for Communities and Local Government and before that in the Department for Education / Department for Children, Schools and Families.

Prior to that, Sue had a long career in Local Government and held Board level roles at the London Borough of Sutton and Slough Borough Council where she held the statutory CFO responsibilities amongst other responsibilities. Sue is a CIPFA qualified accountant and was serving as an elected member of CIPFA Council prior to leaving the UK for the Cayman Islands. Sue has held numerous honorary finance and audit roles over the years notably being elected the first female President of the Society of Municipal Treasurers in 2005/06.

All board members except Mr. Cockburn and Ms. Winspear 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 24 July 2018.



Auditors Oversight Authority

CAYMAN ISLANDS

Audited Financial Statements
for the year ended 31 December 2018

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Auditors Oversight Authority
Statement of Responsibility for Financial Statements
31 December 2018

These financial statements have been prepared by the Auditors Oversight Authority in accordance with the provisions of the *Public Management and Finance Law (2018 Revision)*.

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 (2018 Revision)*.

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.

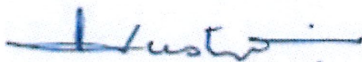
The Board of the Authority and the Managing Director are responsible for establishing, and have established and maintained a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorized by law, and properly record the financial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

The financial statements fairly present the financial position of the Auditors Oversight Authority as at 31 December 2018, and its financial performance, cash flows and changes in net worth for the 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 31 December 2018;
- (b) fairly reflect the financial position as at 31 December 2018 and financial performance for the year ended 31 December 2018; and
- (c) comply with International Public Sector Accounting Standards as set out by the International Public Sector Accounting Standards Board under the auspices of the International Federation of Accountants.

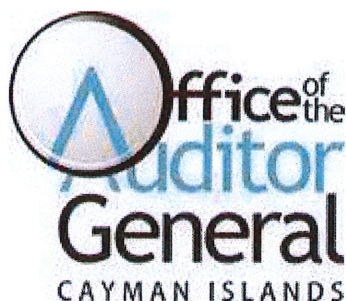
The Office of the Auditor General conducts an independent audit and expresses an opinion on the accompanying financial statements. The Office of the Auditor General has been provided access to all the information necessary to conduct an audit in accordance with International Standards on Auditing.



Michael Austin MBE, FCA
Chairman
Date: 11 March 2019



Donald Cockburn, FCPA, FCA
Managing Director
Date: 11 March 2019



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AUDITOR GENERAL'S REPORT

To the Board of Directors of the Audit Oversight Authority

Opinion

I have audited the financial statements of the Audit Oversight Authority (the "Authority"), which comprise the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in net worth and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 8 to 18.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Authority in accordance with the International Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, together with the ethical requirements that are relevant to my audit of the financial statements in the Cayman Islands, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the 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.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

AUDITOR GENERAL'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I have undertaken the audit in accordance with the provisions of Section 60(1)(a) of the *Public Management and Finance Law (2018 Revision)* and Section 28(3) of the *Auditors Oversight Law (2017 Revision)*. I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



Garnet Harrison, CPA, CA
Acting Auditor General

11 March 2019
Cayman Islands

AUDITORS OVERSIGHT AUTHORITY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018 (Expressed in Cayman Islands dollars)					
31 December 2017 Actual		Note	Current Year Actual	Current Year Final Budget	Variance (Actual vs Budget)
	Current Assets				
339,017	Cash and cash equivalents	3	273,827	119,300	154,527
-	Receivables	4	103,131	157,500	(54,369)
15,883	Accrued income & Prepayments		18,422	-	18,422
354,900	Total Current Assets		395,380	276,800	118,580
	Non-Current Assets				
6,260	Property, plant and equipment	5	-	6,100	(6,100)
6,260	Total Non-Current Assets		-	6,100	(6,100)
361,160	Total Assets		395,380	282,900	112,480
	Current Liabilities				
15,000	Other payables and accruals	6	16,000	18,400	(2,400)
15,000	Total Current Liabilities		16,000	18,400	(2,400)
15,000	Total Liabilities		16,000	18,400	(2,400)
346,160	Net Assets		379,380	264,500	114,880
	NET WORTH				
100,000	Contributed capital		100,000	100,000	-
246,160	Accumulated surplus		279,380	164,500	114,880
346,160	Total Net Worth		379,380	264,500	114,880
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 31 DECEMBER 2018 (Expressed in Cayman Islands dollars)					
18 months ended 31 December 2017		Note	Current Year Actual	Current Year Final Budget	Variance (Actual vs Budget)
	Revenue				
472,500	Government of the Cayman Islands	7	315,000	315,000	-
6,000	Fees	8	27,631	34,000	(6,369)
478,500	Total Revenue		342,631	349,000	(6,369)
	Expenses				
191,748	Personnel costs	9,12	128,422	162,700	(34,278)
162,000	Directors' fees	12	108,000	108,000	-
76,726	Other operating expenses	10	72,858	133,000	(60,142)
2,003	Depreciation	5	131	1,000	(869)
432,477	Total Expenses		309,411	404,700	(95,289)
46,023	Net surplus for the period/year		33,220	(55,700)	88,920
The accounting policies and notes on pages 8-18 form an integral part of these financial statements.					

18 months ended 31 December 2017	AUDITORS OVERSIGHT AUTHORITY STATEMENT OF CHANGES IN NET WORTH FOR THE YEAR ENDED 31 DECEMBER 2018 (Expressed in Cayman Islands dollars)						
	Current Year						
		Contributed capital	Accumulated surplus	Total net worth	Final budget	Variance (Actual vs Budget)	
	300,137	Opening balance	100,000	246,160	346,160	320,200	25,960
	46,023	Net surplus for the period/year	-	33,220	33,220	(55,700)	88,920
	-	Dividends	-	-	-	-	-
	346,160	Closing balance	100,000	279,380	379,380	264,500	114,880
The accounting policies and notes on pages 8-18 form an integral part of these financial statements.							

	AUDITORS OVERSIGHT AUTHORITY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018 (Expressed in Cayman Islands dollars)				
18 months ended 31 December 2017	Note	Current Year Actual	Current Year Budget	Variance (Actual vs Budget)	
	CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES				
551,250	Government of the Cayman Islands	236,250	315,000	(78,750)	
58,159	Fees	3,250	34,000	(30,750)	
(162,000)	Directors' fees	(102,000)	(108,000)	6,000	
(189,388)	Personnel costs	(132,222)	(162,700)	30,478	
(88,153)	Operating expenses	(70,468)	(133,000)	62,532	
169,868	Net cash flows from/(used in) operating activities	(65,190)	(54,700)	(10,490)	
	CASH FLOWS FROM INVESTING ACTIVITIES				
-	Purchase of property, plant and equipment	-	-	-	
-	Net cash flows from investing activities	-	-	-	
	CASH FLOWS FROM FINANCING ACTIVITIES				
-	Equity Investment	-	-	-	
-	Net cash flows from financing activities	-	-	-	
169,868	Net increase/(decrease) in cash and cash equivalents	(65,190)	(54,700)	(10,490)	
169,149	Cash and cash equivalents at beginning of period/year	339,017	174,000	165,017	
339,017	Cash and cash equivalents at end of period/year	273,827	119,300	154,527	
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 31 December 2018
(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 (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 and designated and Authority specified companies (as defined by the Law) 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.

For the financial year/period ended 31 December 2018 and 2017, materially 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 31 December 2018, the Auditors Oversight Authority had one employee (31 December 2017: 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.

Certain new accounting standards have been published that are not mandatory for the 31 December 2018 reporting period and have not been early adopted by the Authority. The Authority’s assessment of the impact of these new standards is set out below:

IPSAS 41, Financial Instruments was issued in August 2018 and shall be applied for financial statements covering periods beginning on or after 1 January 2022. IPSAS 41 establishes new requirements for classifying, recognizing and measuring financial instruments to replace those in *IPSAS 29, Financial Instruments: Recognition and*

Auditors Oversight Authority
Notes to the Financial Statements
For the year ended 31 December 2018
(Stated in Cayman Islands Dollars)

2. Significant accounting policies (continued)

Measurement. It is anticipated that IPSAS 41 will not have a significant impact on the Authority's financial statements. This will be assessed more fully closer to the effective date of adoption.

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.

(b) Comparative amounts

The comparative amounts are the audited amounts for the eighteen-month period ended 31 December 2017 consequently the financial statements for the 12 months ended 31 December 2018 are not entirely comparable with those for the eighteen-month period ended 31 December 2017.

(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 original budget amounts for the year ended 31 December 2018 were prepared using the accrual basis of accounting and the accounting policies have been consistently applied with the actual financial statement presentation. The amounts shown in these financial statements were included in the Budget Statement of the Government of the Cayman Islands for the year ended 31 December 2018 and were not revised after being passed by the Legislative Assembly on 17 November 2017.

Auditors Oversight Authority
Notes to the Financial Statements
For the year ended 31 December 2018
(Stated in Cayman Islands Dollars)

2. Significant accounting policies (continued)

(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.

(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

Auditors Oversight Authority
Notes to the Financial Statements
For the year ended 31 December 2018
(Stated in Cayman Islands Dollars)

2. Significant accounting policies (continued)

(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 as earned over the period of the related inspection.
- 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 of the AOA are comprised of 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 31 December 2018 and 2017 all financial assets and liabilities

Auditors Oversight Authority
Notes to the Financial Statements
For the year ended 31 December 2018
(Stated in Cayman Islands Dollars)

2. Significant accounting policies (continued)

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.

(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 and Home Affairs. 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

Auditors Oversight Authority
Notes to the Financial Statements
For the year ended 31 December 2018
(Stated in Cayman Islands Dollars)

2. Significant accounting policies (continued)

related to construction or acquisition of property, plant and equipment, such service in-kind is recognized in the cost of the 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.

3. Cash and cash equivalents

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

Description	Actual 31 Dec. 2018	Actual 31 Dec. 2017
CI\$ Operational Current Account held at Royal Bank of Canada – Cayman Islands	273,827	339,017
Total	\$273,827	\$339,017

4. Receivables

Description	Actual 31 Dec. 2018	Actual 31 Dec. 2017
Government of the Cayman Islands: 4 th quarter funding	78,750	-
Inspection costs & recoverable expenses	24,381	-
Total	\$103,131	\$-

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5. Property, plant and equipment

	Furniture & Computer equipment	
	Actual 31 Dec. 2018	Actual 31 Dec. 2017
Cost:		
At start of year/period	11,279	11,279
Additions	-	-
Disposals	(9,698)	-
At end of year/period	1,581	11,279
Accumulated Depreciation:		
At start of year/period	5,019	3,016
Charge for the year/period	131	2,003
Accumulated depreciation on disposals	(3,569)	-
At end of year/period	1,581	5,019
Net book value:	\$-	\$6,260

Property, plant and equipment at 31 December 2017 comprised office furniture and computer equipment. The office furniture was taken over by Government when the Authority's office lease was terminated (see Note 10). No monies were recovered from Government for the furniture and it was written off as of 1 January 2018.

6. Other payables and accruals

Other payables & accruals	Current	Non-Current	Actual 31 Dec. 2018	Actual 31 Dec. 2017
Audit fees	10,000	-	10,000	15,000
Director's fees	6,000	-	6,000	-
Total	\$16,000	-	\$16,000	\$15,000

7. Outputs to the Legislative Assembly: Revenue

The Authority provides services to the Cabinet of the Cayman Islands Government under an agreement established in the Annual Plan and Estimates (the "Plan"). The Plan for the year ended 31 December 2018 established legal provisions for the AOA to provide a maximum of \$315,000 in services (Eighteen months ended 31 December 2017: \$472,500). Each fiscal year's Ownership Agreement between the Authority and Government sets out the objectives that the Authority seeks to achieve.

Materially all of the objectives under the 2018 Ownership Agreement were met and, accordingly, all revenue received and receivable from Government for the year ended 31 December 2018 was recognized as earned.

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8. Fees

Description	Actual 31 Dec. 2018	Prior Period Actual
Registration & withdrawal fees	250	-
Annual fees	3,000	6,000
Inspection fees	24,381	-
Total fee revenue	\$27,631	\$6,000

9. Personnel costs

Personnel costs comprise 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 the year ended 31 December 2018 and the eighteen months ended 31 December 2017 related to the Managing Director.

Description	Actual 31 Dec. 2018	Prior Period Actual
Salary	110,000	165,000
Work permit fees	4,850	7,650
Medical insurance	13,572	19,098
Total Personnel costs	\$128,422	\$191,748

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 31 Dec. 2018	Prior Period Actual
Inspection costs	20,881	440
Purchase of services & legal fees	2,966	8,936
Travel and subsistence	17,321	26,732
Audit fees - Auditor General's Office	10,000	15,000
Office rent: Government	-	6,500
IFIAR membership fees	14,083	16,545
Write-off of office furniture (Note 5)	6,129	-
Other expenses	1,478	2,573
Total other operating expenses	\$72,858	\$76,726

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10. Other operating expenses (continued)

Inspection costs comprise fees and expenses paid to the Institute of Chartered Accountants in England and Wales, which is contracted to provide resources for the Authority's inspections, and related work permit fees, and those costs incurred by AOA staff in carrying out inspections. The costs for the period ended 31 December 2017 represent costs incurred by the Authority in planning an inspection which was not completed, net of amounts recovered from the Recognized Auditor concerned.

Through 30 June 2017, the Authority rented office space in the Government Administration Building at the rate of CI\$542 per month. The lease, which was year to year, with 6 months notice to vacate, was effectively suspended in July 2017.

11. Reconciliation of surplus to net cash flows from operating activities

Description	Actual 31 Dec. 2018	Prior Period Actual
Surplus for the year	33,220	46,023
Depreciation charge	131	2,003
Write-off of office furniture (Note 5)	6,129	-
Decrease/(increase) in current assets	(105,670)	125,393
(Decrease)/increase in current liabilities:		
Unearned revenue	-	(2,000)
Other current liabilities	1,000	(1,551)
Net cash flows from operating activities	\$(65,190)	\$169,868

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.

The Office of the Auditor General receives an audit fee of \$10,000 for conducting the audit of the Authority's financial statements. The Auditor General has recused herself of the audit and the audit report is signed off by her Deputy who is delegated Acting Auditor General authority to carry out the function of the Auditor General in this circumstance.

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

Key management personnel remunerated by the AOA include the Chairman, the Deputy Chairman, the Managing Director and an independent Board member. For the year ended 31 December 2018 and eighteen months ended 31 December 2017 these individuals received the following considerations for their services:

Description	Actual 31 Dec. 2018	Prior Period Actual
Salaries & other short-term employee benefits	123,572	184,098
Directors' fees	108,000	162,000
Total	\$231,572	\$346,098

See also Note 10 for amounts paid to related parties for rent.

13. Budget variances

The budget variances can be explained by a combination of specific matters and differences in the timing of transactions as reflected in the budget and the actual transaction dates, viz:

Cash and cash equivalents/Receivables: the budget assumed that 2 quarterly installments of the Government funding would be receivable at 31 December 2018; only 1 installment (\$78,750) was outstanding. The budget also assumed that the inspection costs & recoverable expenses receivable (\$24,381) would have been received before year end.

Accrued income & Prepayments: all timing differences.

Property, plant & equipment: see Note 5. The write-off of office furniture was not budgeted.

Personnel costs: the Authority budgeted for the engagement of a Caymanian to assume the role of Managing Director with a consequent increase in personnel costs arising from a transitional overlap of responsibilities. The anticipated appointment did not occur in 2018.

Other operating expenses: Actual legal costs (services not required), rent (office lease terminated: see Note 10) and inspection costs (activity level lower than expected) were all less than budgeted.

14. Financial risk management

Credit risk

At 31 December 2018, the Authority held CI\$273,827 (2017: CI\$339,017) 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

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14. Financial risk management (continued)

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 31 December 2018 and 2017, the carrying amount of cash deposits, receivables and other 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.

16. Compliance with The Public Authorities Law, 2017.

The Authority is required to comply with The Public Authorities Law, 2017, (the “PAL”). Amongst other matters, the PAL requires that where a public authority has surplus cash reserves for a period of more than ninety days, the surplus shall be paid to core government unless otherwise directed by Cabinet, after written consultation with the Board. The PAL also requires that a public authority pay dividends in accordance with the formulae established by the Minister of Finance and Economic Development (the “Ministry”) after written consultation with the Board, unless otherwise directed by Cabinet.

The Ministry has advised the Authority that it will not be required to pay a dividend out of its surplus as at 31 December 2018. Going forward, the Authority will be required to pay a dividend in accordance with Government’s policy for the payment of annual dividends by statutory authorities and Government companies unless the Authority agrees, in writing annually, with the Ministry that the Authority would be exempt from doing so under such policy.