



# **Auditors Oversight Authority**

CAYMAN ISLANDS

Annual Report  
for the  
18 months ended 31 December 2017

---

**Auditors Oversight Authority**  
**Annual Report**  
**for the eighteen months ended 31 December 2017**

Table of Contents

Managing Director's Report.....	i - ii
Annual Board Report.....	iii - iv
Board of Directors.....	v-vii
Audited Financial Statements: 31 December 2017	
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 Statement.....	8-18



## Auditors Oversight Authority

CAYMAN ISLANDS

---

### Managing Director's Report 2017

I am pleased to present my fifth report as Managing Director of the Auditors Oversight Authority (AOA) and to report on developments during the eighteen-month period ended 31 December 2017. Our efforts during the period were focused on expanding the scope of our inspection activities.

We were successful in achieving amendments to our law with the passage of The Auditors Oversight (Amendment) Law, 2016 by the Legislative Assembly 24 October 2016. The primary purpose of the amendments was to expand the potential scope of our inspection activities to include two additional categories of audits subject to our oversight and to permit co-operation between ourselves and other audit regulators. As a result of these amendments our Rules were revised to reflect those amendments. The consolidated Auditors Oversight Law (2017 Revision) and amended Rules are now included on our AOA web site ([www.aoa.ky](http://www.aoa.ky)).

In connection with the above, the process for applying to the relevant body in the European Commission for equivalence status continues as does the process for applying to the Financial Services Agency/CPAFOB in Japan for equivalence status. During fiscal 2017 we also applied to the Federal Auditor Oversight Authority in Switzerland for equivalence status. We have not yet been successful to date in achieving equivalence status but are continuing efforts in that regard.

In the meantime, AOA continues to be a member of the International Forum of Independent Audit Regulators (IFIAR) and attends their annual Plenary Meeting and Enforcement Workshop. During fiscal 2017, in a significant development, AOA became a signatory to IFIAR's Multilateral Memoranda of Understanding (MMOU) document which will facilitate the entering into of memorandum of understanding with other IFIAR member audit regulators around the world (there are now fifty-two countries which are members of IFIAR of whom twenty-two countries are signatories to the MMOU document).

Also in 2017, The Public Authorities Law, 2017 was passed by the Legislative Assembly 27 March 2017. AOA, as are all public authorities in the Cayman Islands, is subject to this Law which except for one section of the Law is effective 1 June 2017. We are continuing to consider the governance implications of the new Law on our activities.



## Auditors Oversight Authority

CAYMAN ISLANDS

---

As mentioned in my previous report as Managing Director of AOA, AOA is in the process of engaging a person to replace me as Managing Director of AOA. We were not successful in doing so in fiscal 2017 but will continue efforts in 2018 to engage my successor.

Donald Cockburn  
FCPA, FCA  
Managing Director  
24 January 2018



## Auditors Oversight Authority

CAYMAN ISLANDS

---

### Annual Board Report for the eighteen months ended 31 December 2017

#### **Who we are**

We are a Cayman Islands independent statutory authority established by the Auditors Oversight Law, 2011. Our Law was amended through the passage of The Auditors Oversight (Amendment) Law 2016 by the Legislative Assembly 24 October 2016. The amendment added two additional categories of audits to our purview (designated companies and Authority specified companies).

#### **What we do**

Our current mandate is to regulate and supervise auditors who audit the financial statements of market traded, designated and Authority specified companies through conducting inspections of such auditors. There are currently four auditors who are registered with us.

#### **Leadership**

The Board of the Authority provides the leadership of the Authority. Currently the Board is comprised of six persons, three of whom are retired public accountants of whom two are resident in the Cayman Islands, one is the Auditor General of the Cayman Islands, one is the Financial Secretary of the Cayman Islands and finally the Managing Director of the Authority who is an ex-officio member of the Board. The Managing Director is entrusted with the day to day administration of the Authority under authority delegated by the Board. Under the new Public Authorities Law, 2017, which became effective on 1 June 2017, Board members who are public servants are not entitled to vote at Board meetings nor is the Managing Director.

#### **Inspection results**

The Managing Director is responsible for leading the inspection activities of the Authority. The Authority has entered into an arrangement with the Institute of Chartered Accountants in England and Wales whereby personnel from the Institute assist the Managing Director in the conduct of the Authority's inspection activities. We did not conduct any inspections in fiscal 2017. In May 2015 we inspected one audit firm which audited one market traded company. In May 2016 we inspected two audit firms which each audited one market traded company. In all three cases we reported on the results of our inspections without the imposition of requirements, restrictions or sanctions. We expect we will conduct an inspection of at least one firm registered with us in 2018.



## Auditors Oversight Authority

CAYMAN ISLANDS

---

### **Financial information**

Virtually all of our funding is derived from the Cayman Island Government. A modest annual fee is paid by the audit firms and we charge the audit firms inspected the direct costs of the inspection (being the costs of the Institute of Chartered Accountants of England & Wales personnel and the costs of the Managing Director during the inspection). Our annual financial statements are audited by the Office of the Auditor General of Cayman Islands and are included on our website ([www.aoa.ky](http://www.aoa.ky)).

24 January 2018

## **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: Sue Winspear, CPFA (from July 2016)

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 2 May 2015.



# **Auditors Oversight Authority**

CAYMAN ISLANDS

Audited Financial Statements  
for the  
18 months ended 31 December 2017

---

## 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**  
**31 December 2017**

These financial statements have been prepared by the Auditors Oversight Authority in accordance with the provisions of the *Public Management and Finance Law (2017 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 (2017 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.

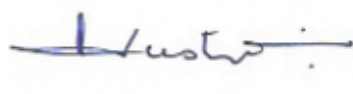
The Board of the Authority and the Managing Director are responsible for establishing, and have established and maintained a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorized by law, and properly record the financial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

The financial statements fairly present the financial position of the Auditors Oversight Authority as at 31 December 2017, and its financial performance, cash flows and changes in net worth for the eighteen-month financial period 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 eighteen-month financial period ended 31 December 2017;
- (b) fairly reflect the financial position as at 31 December 2017 and financial performance for the eighteen-month financial period ended 31 December 2017; 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: 20 April 2018



---

Donald Cockburn, FCPA, FCA  
Managing Director  
Date: 20 April 2018

## 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 2017 and the statement of financial performance, statement of changes in net worth and statement of cash flows for the 18-month period from 1 July 2016 to 31 December 2017, 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 2017 and its financial performance and its cash flows for the 18-month period from 1 July 2016 to 31 December 2017 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.

#### Emphasis of Matter

We draw attention to Note 16 of the financial statements which describes the Authority's non-compliance with *The Public Authorities Law, 2017* subsections 39 (2) and (3) - investing and reserves. Our opinion is not modified in respect of this matter.

#### 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)(ii) of the *Public Management and Finance Law (2017 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

20 April 2018  
Cayman Islands



AUDITORS OVERSIGHT AUTHORITY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (Expressed in Cayman Islands dollars)					
30 June 2016 Prior Year Actual		Note	Current Period Actual	Current Period Final Budget	Variance (Budget vs Actual)
	Current Assets				
169,149	Cash and cash equivalents	3	339,017	98,400	240,617
78,750	Receivables	4	-	157,500	(157,500)
62,526	Accrued income & Prepayments		15,883	-	15,883
310,425	Total Current Assets		354,900	255,900	99,000
	Non-Current Assets				
8,263	Property, plant and equipment	5	6,260	7,100	(840)
8,263	Total Non-Current Assets		6,260	7,100	( 840)
318,688	Total Assets		361,160	263,000	98,160
	Current Liabilities				
2,000	Unearned revenue	7	-	-	-
2,627	Trade payables	6	-	3,400	(3,400)
13,924	Other payables and accruals	6	15,000	15,000	-
18,551	Total Current Liabilities		15,000	18,400	(3,400)
18,551	Total Liabilities		15,000	18,400	(3,400)
300,137	Net Assets		346,160	244,600	101,560
	NET WORTH				
100,000	Contributed capital		100,000	100,000	-
200,137	Accumulated surplus		246,160	144,600	101,560
300,137	Total Net Worth		346,160	244,600	101,560
The accounting policies and notes on pages 8-18 form an integral part of these financial statements.					

<b>AUDITORS OVERSIGHT AUTHORITY</b> <b>STATEMENT OF FINANCIAL PERFORMANCE</b> <b>FOR THE EIGHTEEN MONTHS ENDED 31 DECEMBER 2017</b> (Expressed in Cayman Islands dollars)					
<b>Prior Year Actual</b>		<b>Note</b>	<b>Current Period Actual</b>	<b>Current Period Final Budget</b>	<b>Variance (Budget vs Actual)</b>
	<b>Revenue</b>				
315,000	Government of the Cayman Islands	7	472,500	472,500	-
56,926	Fees	8	6,000	34,000	(28,000)
<b>371,926</b>	<b>Total Revenue</b>		<b>478,500</b>	<b>506,500</b>	<b>(28,000)</b>
	<b>Expenses</b>				
122,005	Personnel costs	9,12	191,748	172,200	19,548
108,000	Directors' fees	12	162,000	162,000	-
134,877	Other operating expenses	10	76,726	210,050	(133,324)
1,335	Depreciation	5	2,003	1,500	503
<b>366,217</b>	<b>Total Expenses</b>		<b>432,477</b>	<b>545,750</b>	<b>(113,273)</b>
<b>5,709</b>	<b>Net surplus or (deficit) for the period/year</b>		<b>46,023</b>	<b>(39,250)</b>	<b>85,273</b>
The accounting policies and notes on pages 8-18 form an integral part of these financial statements.					



<b>AUDITORS OVERSIGHT AUTHORITY</b> <b>STATEMENT OF CHANGES IN NET WORTH</b> <b>FOR THE EIGHTEEN MONTHS ENDED 31 DECEMBER 2017</b> (Expressed in Cayman Islands dollars)						
<b>Prior Year Actual</b>		<b>Current Period</b>				
		<b>Contributed capital</b>	<b>Accumulated surplus</b>	<b>Total net worth</b>	<b>Final budget</b>	<b>Variance (Budget v Actual)</b>
294,428	<b>Opening balance</b>	100,000	200,137	300,137	283,850	16,287
5,709	Net surplus for the period/year	-	46,023	46,023	(39,250)	85,273
-	Dividends	-	-	-	-	-
<b>300,137</b>	<b>Closing balance</b>	<b>100,000</b>	<b>246,160</b>	<b>346,160</b>	<b>244,600</b>	<b>101,560</b>
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 EIGHTEEN MONTHS ENDED 31 DECEMBER 2017 (Expressed in Cayman Islands dollars)					
Prior Year Actual		Note	Current Period Actual	Current Period Budget	Variance (Budget vs Actual)
	CASH FLOWS FROM OPERATING ACTIVITIES				
315,000	Government of the Cayman Islands		551,250	472,500	78,750
29,721	Fees		58,159	34,000	24,159
(114,000)	Directors' fees		(162,000)	(162,000)	-
(122,196)	Personnel costs		(189,388)	(172,200)	(17,188)
(139,841)	Operating expenses		(88,153)	(201,250)	113,097
(31,316)	Net cash flows from operating activities	11	169,868	(28,950)	198,818
	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		-	-	-
(31,316)	Net increase/(decrease) in cash and cash equivalents		169,868	(28,950)	198,818
200,465	Cash and cash equivalents at beginning of period/year		169,149	127,350	41,799
169,149	Cash and cash equivalents at end of period/year		339,017	98,400	240,617
	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 eighteen months ended 31 December 2017**  
**(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.

For the financial periods ended 31 December 2017 and 30 June 2016, 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 2017, the Auditors Oversight Authority had one employee (30 June 2016: 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 eighteen months ended 31 December 2017**  
**(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 2016. Government (and, accordingly, the Authority) changed its year end to 31 December from 30 June and decided the first 31 December year end would be 31 December 2017; consequently the twelve-month 2016 audited financial statements 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 period ended 31 December 2017 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 eighteen months ended 31 December 2017 and were not revised after being tabled in the Legislative Assembly on 30 May 2016.

(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 eighteen months ended 31 December 2017**  
**(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.

**Auditors Oversight Authority**  
**Notes to the Financial Statements**  
**For the eighteen months ended 31 December 2017**  
**(Stated in Cayman Islands Dollars)**

**Significant accounting policies (continued)**

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 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 31 December 2017 and 30 June 2016 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 eighteen months ended 31 December 2017**  
**(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 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 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 eighteen months ended 31 December 2017**  
**(Stated in Cayman Islands Dollars)**

**3. Cash and cash equivalents**

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

<b>Description</b>	<b>Actual 31 Dec. 2017</b>	<b>Prior Year Actual</b>
CI\$ Operational Current Account held at Royal Bank of Canada – Cayman Islands	339,017	169,149
<b>Total</b>	<b>\$339,017</b>	<b>\$169,149</b>

**4. Receivables**

The receivables balances as at 30 June 2016 represent output funding receivable from Cabinet.

<b>Description</b>	<b>Actual 31 Dec. 2017</b>	<b>Prior Year Actual</b>
Government of the Cayman Islands	-	78,750
<b>Total</b>	<b>\$-</b>	<b>\$78,750</b>

**5. Property, plant and equipment**

	<b>Furniture &amp; Computer equipment</b>	
	<b>Actual 31 Dec. 2017</b>	<b>Prior Year Actual</b>
Cost:		
At start of period/year	11,279	11,279
Additions	-	-
Disposals	-	-
At end of period/year	11,279	11,279
Accumulated Depreciation:		
At start of period/year	3,016	1,681
Charge for the period/year	2,003	1,335
Accumulated depreciation on disposals	-	-
At end of period/year	5,019	3,016
<b>Net book value:</b>	<b>\$6,260</b>	<b>\$8,263</b>



**Auditors Oversight Authority**  
**Notes to the Financial Statements**  
**For the eighteen months ended 31 December 2017**  
**(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 31 December 2017 and 30 June 2016, the AOA had the following payables and accruals:

<b>Trade payables</b>	<b>Current</b>	<b>Non-Current</b>	<b>Actual 31 Dec. 2017</b>	<b>Prior Year Actual</b>
Legal fees	-	-	-	2,627
Directors' fees	-	-	-	-
<b>Total</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$2,627</b>

<b>Other payables &amp; accruals</b>	<b>Current</b>	<b>Non-Current</b>	<b>Actual 31 Dec. 2017</b>	<b>Prior Year Actual</b>
Audit fees	15,000	-	15,000	10,000
Other accruals	-	-	-	3,924
<b>Total</b>	<b>\$15,000</b>	<b>-</b>	<b>\$15,000</b>	<b>\$13,924</b>

**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 "Plan"). The Plan for the eighteen months to 31 December 2017 established legal provisions for the AOA to provide a maximum of \$472,500 in services (Year ended 30 June 2016: \$315,000). Each fiscal year's Ownership Agreement between the Authority and Government sets out the objectives that the Authority seeks to achieve.

Not all of the objectives under the 2016/17 Ownership Agreement were met in their entirety (see also Note 13). However, all revenue received from Government for the period ended 31 December 2017 was recognized as earned because the Authority had continued to fulfil its mandate and devoted significant time and effort to meeting the objectives.

**Auditors Oversight Authority**  
**Notes to the Financial Statements**  
**For the eighteen months ended 31 December 2017**  
**(Stated in Cayman Islands Dollars)**

**8. Fees**

<b>Description</b>	<b>Actual 31 Dec. 2017</b>	<b>Prior Year Actual</b>
Registration fees	-	1,000
Annual fees	6,000	2,000
Inspection fees	-	53,926
<b>Total fee revenue</b>	<b>\$6,000</b>	<b>\$56,926</b>

Unearned revenue of \$2,000 at 30 June 2016 comprised the unearned portion of annual registration fees received from Recognized Auditors for 2016.

**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 the period ended 31 December 2017 and year ended 30 June 2016 related to the Managing Director.

<b>Description</b>	<b>Actual 31 Dec. 2017</b>	<b>Prior Year Actual</b>
Salary	165,000	110,000
Work permit fees	7,650	6,725
Medical insurance	19,098	5,280
<b>Total Personnel costs</b>	<b>\$191,748</b>	<b>\$122,005</b>

**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.

<b>Description</b>	<b>Actual 31 Dec. 2017</b>	<b>Prior Year Actual</b>
Inspection costs	440	42,441
Purchase of services & legal fees	8,936	37,121
Travel and subsistence	26,732	25,001
Audit fees - Auditor General's Office	15,000	10,000
Office rent: Government	6,500	6,500
IFIAR membership fees	16,545	8,789
Other expenses	2,573	5,025
<b>Total other operating expenses</b>	<b>\$76,726</b>	<b>\$134,877</b>

**Auditors Oversight Authority**  
**Notes to the Financial Statements**  
**For the eighteen months ended 31 December 2017**  
**(Stated in Cayman Islands Dollars)**

**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. 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.

Legal fees incurred in period ended 31 December 2017 and year ended 30 June 2016 relate mainly to advice on the content and application of the Authority's Rules and the Regulations to the Law, possible changes to the Law and matters relating to the Managing Director's work permit.

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**

<b>Description</b>	<b>Actual 31 Dec. 2017</b>	<b>Prior Year Actual</b>
<b>Surplus for the year</b>	<b>46,023</b>	<b>5,709</b>
Depreciation charge	2,003	1,335
Decrease/(increase) in current assets	125,393	(28,625)
(Decrease)/increase in current liabilities:		
Unearned revenue	(2,000)	2,000
Other current liabilities	(1,551)	(11,735)
<b>Net cash flows from operating activities</b>	<b>\$169,868</b>	<b>\$(31,316)</b>

**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 period ended 31 December 2017 and year ended 30 June 2016, these individuals received the following considerations for their services:

**Auditors Oversight Authority**  
**Notes to the Financial Statements**  
**For the eighteen months ended 31 December 2017**  
**(Stated in Cayman Islands Dollars)**

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

<b>Description</b>	<b>Actual 31 Dec. 2017</b>	<b>Prior Year Actual</b>
Salaries & other short-term employee benefits	184,098	115,280
Directors' fees	162,000	108,000
<b>Total</b>	<b>\$346,098</b>	<b>\$223,280</b>

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

**13. Budget variances**

The budget assumed an increased level of operations with an expectation of both more registrations and inspection activity, and additional costs as the capability of Authority was built out. The anticipated significant increase in activity did not occur. The principal reason for this was the unexpected delay in finalizing changes to the Law which would have provided the legal basis for an increase in the scope of the AOA's operations, including conducting inspections on behalf of equivalent authorities in other jurisdictions with oversight responsibility for Cayman Islands based auditors.

In addition, the inspection planned for 2017 did not occur because the Recognized Auditor concerned provided new evidence to the Authority that the subject audits were in fact not within the Authority's remit and we had 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.

Cashflows from Government were higher than budget because of the timing of receipts.  
Personnel cost were higher because of an unbudgeted increase in medical insurance costs.

**14. Financial risk management**

**Credit risk**

At 31 December 2017, the Authority held 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 of this financial institution, the Authority does not anticipate any material losses as a result of this concentration.

**Auditors Oversight Authority**  
**Notes to the Financial Statements**  
**For the eighteen months ended 31 December 2017**  
**(Stated in Cayman Islands Dollars)**

**14. Financial risk management (continued)**

**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 2017 and 30 June 2016, 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.

**16. Compliance with The Public Authorities Law, 2017.**

The Authority is required to comply with The Public Authorities Law, 2017, (the “PAL”) which became effective on 1 June 2017. 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 consultation with the Board in writing. The PAL also requires that a public authority pay dividends in accordance with the formulae established by the Minister of Finance after consultation with the Board in writing, unless otherwise directed by Cabinet.

The Authority is not in compliance with these requirements, pending discussions between the Board and the Ministry of Finance as to what formulae the Ministry wishes the Authority to follow to achieve compliance.