



AUDITORS OVERSIGHT AUTHORITY

Report to those charged with governance on the 2016/17 audit

April 2018

*To help the public service
spend wisely*

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REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 31 December 2017 financial statements of the Auditors Oversight Authority ("AOA"). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Auditors Oversight Authority ("AOA") in sufficient time to enable appropriate action. The matters we are required to communicate under ISAs include:
 - auditors responsibilities in relation to the audit
 - the overall scope and approach to the audit, including any expected limitations, or additional requirements
 - relationships that may bear on our independence, and the integrity and objectivity of our staff
 - expected modifications to the audit report
 - significant findings from our audit
2. This report sets out for the consideration of those charged with governance those matters arising from the audit of the financial statements for the 18-month period ending 31 December 2017 that we consider are worthy of drawing to your attention, so that you can consider them before the financial statements are approved and signed.
3. This report has been prepared for the sole use of those charged with governance and we accept no responsibility for its use by a third party. Under the *Freedom of Information Law (2015 Revision)* it is the policy of the Office of the Auditor General to release all audit reports upon request.

AUDITORS RESPONSIBILITIES IN RELATION TO THE AUDIT

AUDITOR'S RESPONSIBILITY UNDER INTERNATIONAL STANDARDS ON AUDITING

4. ISAs require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters and this report includes only those matters of interest which came to our attention as a result of the performance of our audit.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

5. Management's responsibilities are detailed in the engagement letter to which this engagement was subject. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

6. While we have no responsibility to perform any work on other information, including forward looking statements, in documents containing audited financial statements, we read the information contained in the Auditors Oversight Authority annual report to consider whether such information is materially inconsistent with information appearing in the financial statements or our knowledge of the operations of the Auditors Oversight Authority. We have reviewed the Authority's Annual Report for the 18-month period ended 31 December 2017 containing the Auditors Oversight Authority audited financial statements and found no material inconsistencies to report.

CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT

7. Information on the integrity and objectivity of the Office of the Auditor General and audit staff, and the nature and scope of the audit, were outlined in the Engagement Letter presented to the chairman of the Board of Directors dated 29 March 2018, and follow the requirements of the ISAs. We are not aware of any impairment to our independence as auditors.

AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATIONS

8. We issued an unmodified auditor's report on the financial statements.
9. No adjustments were identified by us during the audit.
10. As part of the completion of our audit we seek written representations from management on aspects of the accounts, judgments and estimates made. We have requested that management provide us with representations in respect of our financial statement audit, which they have provided to us in a letter dated 20 April 2018.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Auditors Oversight Authority significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Auditors Oversight Authority to make accounting estimates and judgments about accounting policies and financial statement disclosures. We are not aware of any areas where the significant accounting practices have changed from previous year or are not consistent with general industry practice. In addition we are not aware of any new or controversial accounting practices reflected in the Auditors Oversight Authority financial statements.
12. Details of any significant findings from the audit are included in **Appendix 1** along with management's response.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. There were no matters which required management to make significant judgments or which required significant estimates.

GOING CONCERN DOUBTS

14. As a result of our audit, we did not become aware of any material uncertainties related to events and conditions that may cast significant doubt on the Auditors Oversight Authority's ability to continue as a going concern.

MATERIAL WEAKNESSES IN INTERNAL CONTROL

15. We identified a number of significant matters relating to internal controls as part of our audit.
16. Details of the material weaknesses in internal controls and other significant findings are included in **Appendix 1** along with management's response.

FRAUD OR ILLEGAL ACTS

17. Applicable auditing standards recognize that the primary responsibility for the prevention and detection of fraud and compliance with applicable laws and regulations rests with both those charged with governance of the entity and with management. It is important that management with the oversight of those charged with governance place a strong emphasis on fraud prevention and fraud deterrence. They are also responsible for establishing and maintaining controls pertaining to the entity's objective of preparing financial statements that are presented fairly, in all material respects, in accordance with the applicable financial reporting framework and managing risks that may give rise to material misstatements in those financial statements. In exercising oversight responsibility, those charged with governance should consider the potential for management override of controls or other inappropriate influence over the financial reporting process.
18. As auditors, in planning and performing the audit, we are required to reduce audit risk to an acceptably low level, including the risk of undetected misstatements in the financial statements due to fraud. However, we cannot obtain absolute assurance that material misstatements in the financial statements will be detected because of such factors as the use of judgment, the use of testing, the inherent limitations of internal control and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature.
19. No fraud or illegal acts came to our attention as a result of our audit.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

20. No serious difficulties were encountered in the performance of our audit.

DISAGREEMENTS WITH MANAGEMENT

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

ANY OTHER SIGNIFICANT MATTERS

22. No other significant matters were raised during the audit.



ACKNOWLEDGEMENTS

23. We would like to express our thanks to the staff of the Auditors Oversight Authority for their help and assistance during the audit of this year's financial statements.
24. If you would like to discuss the results of our audit or any other matters in further details please feel free to call the audit manager, Mr. Winston Sobers at (345) 244-3207 or me at (345) 244-3213.

Yours sincerely,

Garnet Harrison, CPA, CA
Acting Auditor General

APPENDIX 1 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response
<p><u>Managing Director's contract and performance assessment</u></p> <p>During our review, we noted that the Managing Director's contract expired on 17 August 2016. Whereas he continues to occupy the position with the approval of the Board of Directors (the "Board"), there is no contract between the Authority and himself setting out his job description, roles and responsibilities and other relevant terms and conditions of his employment.</p> <p>The Managing Director was not reappointed by Cabinet within the terms and conditions of service as Cabinet may decide in accordance with section 8 of the AOA Law.</p> <p>We also noted that there was no performance agreement signed between the Managing Director and Board, and a subsequent performance review for the period ended 31 December 2017.</p>	<p><u>Risk/ Implication</u></p> <p>Without a contract in place referencing the job description and clearly specified roles and responsibilities, the Board may not be able to objectively assess the Managing Directors performance.</p> <p>In addition, the Authority may not have an opportunity for legal recourse in case of any disputes.</p> <p><u>Recommendation</u></p> <p>The Authority should comply with section 8 of the Auditors Oversight Authority Law by ensuring the Managing Director is appointed and within the terms and conditions by Cabinet.</p> <p>The Authority should ensure all employees contracts specify job descriptions, roles and responsibilities and other terms of employment.</p>	<p>The matter is stuck with Government and has been since before the last contract expired. The Managing Director continues to serve on the same terms and conditions with Government's knowledge and tacit approval.</p> <p>The Managing Director post is a Government appointment.</p> <p>The Managing Director's contract includes, as an appendix, a full job description which sets out, inter alia, the performance expectations.</p> <p>His performance is formally reviewed by the Board annually.</p>
<p><u>Inspections of Recognized Auditors</u></p> <p>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"). We noted that there were no inspections performed of Recognized Auditors during the 18 months to 31 December</p>	<p><u>Risk/ Implication</u></p> <p>The lack of activity raises questions as to the reason for the Authority's existence.</p> <p><u>Recommendation</u></p> <p>Management should prepare an inspection calendar for each reporting period showing the Recognized Auditors to be inspected and the proposed dates and</p>	<p>An inspection was planned for the period ended 31 December 2017 but was abandoned when the subject firm made representations, accepted by the Authority, that the firm had been mistaken in its grounds for registering with the AOA and was not, in fact, subject to inspection.</p> <p>We don't have a written inspection calendar; there are only two firms whom we currently</p>

Observation	Risk/Implication and Recommendation	Management Response
<p>2017.</p> <p>Furthermore, the Authority did not achieve its strategic ownership goals as set out in the Ownership Agreement signed with the Cayman Islands Government.</p>	<p>duration of each inspection. The calendar should be reviewed and approved by the Board prior to the beginning of the year and form part of the budget documents.</p>	<p>inspect so there's no need for an elaborate process. The inspection programme requires us to inspect a firm every 3 years. Although we control the selection of firms to be inspected, and the timing, for efficiency purposes we try and dovetail with the annual ICAEW inspection visits for the CIIPA internal inspection programme. As to duration, an inspection takes as long as it takes; same as an audit.</p>
<p><u>Travel costs</u></p> <p>The Authority has a Travel Policy (the "Policy") that was adopted effective July 2013. We noted that the Policy has not been updated since then to align it with updates to the overall Cayman Islands Government travel policies to control public sector expenditures and to ensure consistency in application across government. For example:</p> <p>a) It does not require the Authority to demonstrate how value for money was achieved in the booking of hotels and flights and other type of travels e.g. the requirement for quotes and other options for travel, the type of travel class allowed for flights for various flight distances or the types of hotels and associated cost to be booked.</p> <p>b) It does not require a business case for travel which would allow the Authority to clearly demonstrate the need for particular travels.</p>	<p><u>Risk/ Implication</u></p> <p>The Policy may not adequately manage a number of risks surrounding travel expenses. These include the risk of misuse of public resources, risk of abuse, and/or fraud.</p> <p><u>Recommendation</u></p> <p>Management should ensure the inherent risk of abuse and misuse of travel expenses is well managed by reviewing and updating its policy, if necessary.</p>	<p>We are satisfied that the existing policy has been adequate for its purpose to date because of the limited number of persons to whom it applies and the close involvement of either the Chairman or Deputy Chairman (neither of whom have ever claimed under the policy) in approving all expense claims under the policy.</p> <p>We will review the new Government policy and the existing AOA policy at the next board meeting and enhance the AOA policy.</p>

Observation	Risk/Implication and Recommendation	Management Response
<p>c) It does not stipulate variable per diems per various locations. For example the Authority's per diems are fixed at \$200 per any destination. For comparison purposes, this is higher than the maximum amount allowed by the Cayman Islands Government Travel Policy.</p> <p>d) There is no documentation in what is needed to support these travel expense claims.</p>		
<p><u>Directors' fees</u></p> <p>We noted that the Authority pays quarterly fees to some members of the Board of Directors. However, the rates appear to be significantly above market rates raising questions as to value for money.</p> <p>There does not appear to be formal documentation authorizing the fees which provides a clear basis for these fees.</p>	<p><u>Risk/Implication</u> The Directors' fees may be viewed by the public to be excessive without proper rationalization, approval and transparency in setting them. This may bring into disrepute the reputation of the Authority.</p> <p><u>Recommendation</u> The Authority should reassess its Board fees to ensure they are in line with market rates and should seek approval from Cabinet for the revised fees in accordance with the provisions of Section 13 (1) of <i>The Public Authorities Law, 2017</i>.</p>	<p>The Directors are appointed by Government and the fees were established by Government back in 2012 and have remained unchanged since. The directors do not have service contracts; their obligations are established by the AOL and other relevant law. Further specific service obligations (e.g. handling a specific task or project) may be imposed by the Board from time to time and usually recorded in the minutes.</p>
<p><u>Reiteration from prior year</u></p> <p>There is no segregation of duties between the Board and management. A member of the Board is involved in the preparation of the accounting records which in an ideal situation should strictly be a management role. We however note that given AOA is still in formative stages and there is only one staff member, it might not be practical therefore to</p>	<p><u>Risk/Implication</u> Lack of segregation of duties between management and the Board dilutes the oversight role that the Board is supposed to conduct.</p> <p><u>Recommendation</u> As segregation of duties is one of the core elements of internal control, a focus should be placed on</p>	<p>We agree segregation of duties is an important element of internal control. For that reason the Managing Director (MD) reviews AOA's bank statement on line on virtually a daily basis and raises questions when he does not recognize the activity.</p> <p>In addition, whilst a Board member is involved in preparing the accounting records and the</p>

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clearly segregate board and management roles.	creating some level of separation between management and Board roles within the AOA.	financials because the MD prepares the various required government forms (monthly SAGC reports, annual SAGC report, Purchase Agreement, Ownership Agreement and quarterly draw requests) he effectively exercises an oversight function. Whilst not ideal, the board is satisfied that no undue risks are being incurred.