



## **AUDITORS OVERSIGHT AUTHORITY**

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**Report to those charged with governance on the 2013/14 audit**

**October 2014**

*Our independent work  
promotes good governance,  
transparency and  
accountability in the use of  
public funds*



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# REPORT TO THOSE CHARGED WITH GOVERNANCE

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## INTRODUCTION

1. We have completed our audit of the 30 June 2014 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 Authority 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 2013/14 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 Act (2007) 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.

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#### 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.

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#### 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, containing audited financial statements, we read the other information contained in the Auditors Oversight Authority annual report to consider whether such information is materially consistent with information appearing in the financial statements or our knowledge of the operations of the Auditors Oversight Authority. We have not reviewed any other documents containing the Auditors Oversight Authority audited financial statements.

#### **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, Mr. Michael Austin dated 5 August 2014, 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 plan to issue an unmodified auditor's report. The proposed report is attached at Appendix 1.
9. There were no audit adjustments or uncorrected misstatements 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, judgements and estimates made. We have requested that management provide us with representations shown at Appendix 3 in respect of our financial statement audit.



## 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 2 along with management's response

### MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES:

13. Other than in relation to the amount of revenue to be recognized as discussed in Note 6 to the financial statements, 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 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. These include:
  - Lack of consistent use of travel policy



- Lack of segregation of duties between management and the Board
- Insufficient documentation on file to support expense reimbursements
- Inconsistent foreign exchange rate for conversion of expenses to reporting currency
- Inappropriate utilization of travel perks
- Inadequate general ledger accounting and record keeping

16. Details are included in Appendix 2 along with management's response.

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#### 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.

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#### SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT:

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





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DISAGREEMENTS WITH MANAGEMENT:

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

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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. This will enable us to provide an audit report within the agreed timetable.



## APPENDIX 1 – PROPOSED AUDIT REPORT

### AUDITOR GENERAL'S REPORT

#### TO THE BOARD OF DIRECTORS OF THE AUDITORS OVERSIGHT AUTHORITY

I have audited the accompanying financial statements of the Auditors Oversight Authority, which comprises the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net worth and the statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, as set out on pages 8 to 17 in accordance with the provisions of Section 28(3) of the *Auditors Oversight Law, 2011* and Section 60(1)(a)(ii) of the *Public Management and Finance Law (2013 Revision)*.

#### Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

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

Garnet Harrison, CA  
Acting Auditor General

DATE  
Cayman Islands



## APPENDIX 2 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response
<p>AOA have a documented travel policy effective July 2013, however noted some instances where travel forms were not completed or signed as required under the travel policy.</p>	<p><u>Risk/Implication</u> Lack of consistent use/application of the travel policy prevents the control from being effective in mitigating the inherent risks associated with travel and hospitality expenses</p> <p><u>Recommendation</u> Travel expenses should always be supported by the duly completed and signed claim form. Any exception should be clearly documented and justified.</p>	<p>Expense claim forms, with supporting documents, are required for all travel expense claims. However, in the year ended 30 June 2014 some forms, and the supporting vouchers, were mailed from Canada but were never received in Cayman. We are satisfied that only bona fides travel expense were reimbursed but accept that this could have been better documented in the accounting file; we will improve documentation of exceptions in future.</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 to clearly segregate board and management roles.</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 creating some level of separation between management and Board roles within the AOA.</p>	<p>Point noted. Given the limited number of transactions and close oversight by other board members, it was not inappropriate for the deputy chairman to keep the accounting records. However, the Board intends that the function be either outsourced or given to a part time employee under the direction of the MD as soon as possible.</p>



<p>Expense reimbursements were not adequately supported with vouchers. In some instances we noted that expenses were recorded based on email correspondence no invoices or receipts retained on file to support. This is a contravention of the travel policy in place.</p>	<p><u>Risk/Implication</u> Lack of documented support for all expense creates possibility of errors or possible abuse of the expense reimbursement process.</p> <p><u>Recommendation</u> All expenses should be supported by invoices and vouchers to ensure validity, accuracy and that a clear business purpose can be determined.</p>	<p>See comments under first point above.</p>
<p>Foreign exchange rates used to convert expenses to the reporting currency fluctuate and are not consistent. Also noted some minor Forex expense relating to salary expense as salary is being paid in Canadian dollars but quoted in Cayman dollars.</p>	<p><u>Risk/Implication</u> Lack of a consistent policy regarding foreign exchange translations creates errors and inaccurate recording of transactions. It may not be material at the current volume of transactions but should be monitored for future.</p> <p><u>Recommendation</u> As the KYD to USD exchange rate is a fixed rate AOA should use a consistent rate in their conversion to ensure all transactions involving foreign currency are reported in a similar manner.</p>	<p>We will bear this in mind as transaction amounts increase in value.</p> <p>The issue relating to the Canadian dollar rate was identified by the AOA in the year and a “true up” adjustment was made to later salary payments to ensure that the AOA was not out of pocket due to either use of an inappropriate rate or changes in rate between the date the transaction amounts were calculated and the date of execution.</p>
<p>Per review of travel reimbursements, it was noted that directors being entitled to business class tickets opted to instead fly economy and utilize the savings to pay for spouses to accompany them on business trips. Total cost of two economy tickets was still below the business class ticket.</p>	<p><u>Risk/Implication</u> There is a perception of utilizing the resources of the AOA for personal gain. Any perceptions of inappropriate conduct can negatively influence the ability of AOA to effectively execute its mandate.</p> <p><u>Recommendation</u> Whereas the directors are entitled to the business class ticket, should they opt to travel economy the savings should be passed on to</p>	<p>Point noted; the Board discussed the point after it was raised in last year’s ISA 260 report and decided to allow the policy to continue and to place it under periodic review.</p>



<p>Inadequate Book keeping and record keeping – General ledger reporting is done on a cash basis and adjustment passed at year end to reflect accruals or prepayments. Also noted that accounting file provided did not contain all support documents for transactions posted particularly for travel related expenses.</p>	<p>the entity and ultimately the taxpayers.</p> <p><u>Risk/Implication</u> There is a risk of missing accrued expenses and prepayments. Cash basis accounting also does not provide sufficient information for decision making since monthly or quarterly accrual basis general ledger information is not available.</p> <p><u>Recommendation</u> A formal accounting system should be implemented especially as AOA becomes fully operational which would increase the volume of transactions.</p> <p>All transactions booked in the general ledger should have supporting documentation on file.</p>	<p>Maintaining the records in this manner has been adequate since inception because of the relatively low volume and value of transactions. However, the Board intends introducing a more formal accounting system in future.</p> <p>It would normally be the case that all transactions would have adequate supporting documentation; see comment above regarding certain travel expenses. We will make an effort to improve the documentation in future.</p>
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## APPENDIX 3 – MANAGEMENT REPRESENTATIONS

10/31/2014

Deputy Auditor General  
Office of the Auditor General  
3<sup>rd</sup> Floor, Anderson Square,  
64 Shedden Road, George Town  
PO Box 2583,  
Grand Cayman KY1-1103,  
Cayman Islands

Dear Sir,

This representation letter is provided in connection with your audit of the financial statements of the Auditors Oversight Authority as of and for the year ended 30 June 2014 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material aspects, in accordance with International Public Sector Accounting Standards (IPSAS).

We confirm that we are responsible for the fair presentation in the financial statements of the statement of financial position, statement of financial performance, statement of changes in net worth and statement of cash flow in conformity with IPSAS, including the appropriate selection and application of accounting policies and other explanatory notes.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material regardless of size if they involve an omission or misstatement of accounting information that in light of surrounding circumstances makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of the date of this letter, which we understand will be the date of your audit report, the following representations made to you during your audit:

### General

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated 5 August 2014, for the preparation of the financial statements in accordance with International Public Sector Accounting Standards; in particular the financial statements are fairly presented in accordance therewith.
2. The Financial Statements have been prepared on a basis which is consistent with the prior year's Financial Statements. We have prepared the financial statements on the basis that the entity is able to continue as a going concern, including to meet its obligations in the ordinary course of business, and we are not aware of any significant information to the contrary.
3. We are responsible for all significant estimates and judgments affecting the financial statements. Significant estimates and judgments and their underlying assumptions, methods, procedures and the source and reliability of supporting data including those measured at fair value are reasonable and based on applicable guidance, and are appropriately disclosed in the financial statements. The procedures and methods utilized in



developing assumptions, estimates and judgments are appropriate and have been consistently applied in the periods presented.

4. There are no material transactions, agreements or accounts that have not been properly recorded in the accounting records underlying the financial statements.
5. We have provided you with:
  - a. Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters; Additional information that you have requested from us for the purpose of the audit; and
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
6. There are no uncorrected misstatements detected in the current year that relate to the current and prior year, both individually and in the aggregate, to the financial statements as a whole.
7. The entity has appropriately reconciled its books and records (e.g., general ledger accounts) underlying the financial statements to their related supporting information (e.g., sub ledger or third-party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the financial statements, as necessary. There were no material un-reconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a statement of financial position account, which should have been written off to a statement of financial performance account and vice versa.

#### **Legal and regulatory compliance**

8. There have been no instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
9. There have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance with laws or regulations in any jurisdiction or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements in the event of noncompliance. The entity has not consulted any legal advisers concerning litigation, claims or assessments.
10. We consider that the entity's policies and procedures are, and have been, adequate to ensure compliance with the Proceeds of Crime Law (2008) and the related Money Laundering Regulations and the Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands. We are not aware of any events during the reporting period or through the date of this letter which indicate that management's responsibility in this respect has not been carried out effectively. We confirm that no matters have come to our attention with respect to the entity's compliance or possible noncompliance with anti-money laundering laws and regulations in any jurisdiction, the effects of which should be considered for disclosure in the Financial Statements





### **Minutes and contracts**

11. We have made available to you all significant contracts and agreements and all minutes of the meetings of directors and any committees or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance.

### **Fraud**

13. We understand that the term “fraud” includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity’s assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.
14. We acknowledge our responsibility for the design, implementation and maintenance of programs and controls to provide reasonable assurance that fraud or error is prevented and detected, and have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
15. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
  - a. Management;
  - b. Employees who have significant roles in internal control over financial reporting; or
  - c. Others where the fraud could have a material effect on the financial statements.
16. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.

### **Assets**

17. All cash and bank accounts and all other properties and assets of the entity of which we are aware are included in the Financial Statements at the statement of position date. The entity has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in the financial statements.
18. Receivables recorded in the financial statements that are classified as current do not include any material amounts which are collectible after one year. The entity is responsible for determining and maintaining the adequacy of the allowance for bad debt provision as well as estimates used to determine such amounts. Management believes the allowance is adequate to absorb currently estimated bad debts in the accounts receivable as of yearend. All receivables have been appropriately reduced to their estimated net realizable value.
19. We have identified each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item and depreciated each item separately in accordance with related IPSAS 17.



20. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

#### **Liabilities**

21. All liabilities of the entity of which we are aware are included in the financial statements at the yearend date.
22. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and accounted for and disclosed in accordance with International Public Sector Accounting Standards.
23. We confirm that the Auditors Oversight Authority had no liability for pension obligations at 30 June 2014 and incurred no pension obligation expenses in the year then ended. We further confirm that the disclosures made in the financial statements for employee benefits are accurate and sufficient.

#### **Equity**

24. We 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 - Revenue from non-exchange transactions (taxes and transfers). We further confirm that sufficient disclosure has been made in the financial statements with respect to these transactions.

#### **Disclosure and presentation**

25. The following have been properly recorded and when appropriate, adequately disclosed in the notes to the financial statements:
- a. Changes in accounting principles affecting consistency
  - b. Significant common ownership or management control relationships
  - c. Losses arising from sale and purchase commitments
  - d. Agreements and options to buy back assets previously sold
  - e. Assets pledged as collateral
  - f. Treasury share repurchase options and agreements and treasury shares reserved for options, warrants, conversions and other requirements
26. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Public Sector Accounting Standards.
27. All events occurring subsequent to the date of the financial statements and through the date of this letter and for which International Public Sector Accounting Standards require adjustment or disclosure have been adjusted or disclosed.
28. The entity has no liability to taxation in any jurisdiction.



- 29. We consider the entity’s functional currency to be Cayman Islands Dollar based on the considerations in IPSAS 4 – The Effects of Changes in Foreign Exchange Rates. In making this assessment, we have used our judgment to determine the functional currency that most faithfully represents the underlying transactions, events and conditions of the entity.
- 30. Information relating to the entity’s exposure to risk arising from financial instruments and how those exposure arise, including a description of our objectives, policies and processes for managing the risk arising from financial instruments and the methods used to measure this risk, has been appropriately disclosed in the notes to the financial statements.
- 31. There are no:
  - a. Guarantees, whether written or oral, under which the entity is contingently liable.
  - b. Significant estimates made in preparing the financial statements. (Significant estimates are estimates at the balance sheet date that could change materially within the next year.)
  - c. Capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions, or other requirements.
  - d. Arrangements with financial institutions involving compensating balances, arrangements involving restrictions on cash balances and lines of credit, or similar arrangements, except as already disclosed in the financial statements.
  - e. Commitments to purchase or sell securities under forward contracts, futures contracts, repurchase or reverse-repurchase agreements, underwriting agreements, and other agreements to repurchase assets previously sold.
  - f. Other agreements not in the ordinary course of business.
  - g. Exposures to off-balance sheet financial instrument risks.
- 32. We are not aware of any significant deficiencies in the design or operation of internal controls over financial reporting. We recognize that we are responsible for establishing and maintaining an internal control structure, the objectives of which are to provide us with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed as authorized and recorded properly to permit preparation of the financial statements.

We understand that your audit was conducted in accordance with International Standards on Auditing as defined and described by the International Federation of Accountants and was, therefore, designed primarily for the purpose of expressing an opinion on the financial statements of the entity and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Yours faithfully,

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Mr. Michael Austin MBE, FCA Chairman Auditors Oversight Authority	Mr. Paul Anderton FCA Deputy Chairman Auditors Oversight Authority	Mr. Donald Cockburn FCPA, FCA Managing Director Auditors Oversight Authority