



Annual Report

of

Office of the Auditor General

For the Year Ended 30 June 2010

Contents

	Page
1. Overview of Performance for the Year	3-6
Part A: Outputs Delivered During the Year	7
Independent Practitioners' Report on Outputs Delivered	8-9
2. Outputs Delivered	10-21
3. Payment Arrangements	22
Part B: Ownership Performance Achieved During the Year	23
4. Nature and Scope of Activities	24
5. Strategic Ownership Goals	25
6. Ownership Performance Targets	26-29
7. Equity Investments and Withdrawals	29
Appendix: Financial Statements for the Year Ended 30 June 2010	30-48

1. Overview of Performance for the Year

Introduction

This document discusses the performance of the Office of the Auditor General (the "Office") for the year ending 30 June 2010. It includes the audited financial statements as well as information about the Office's services provided to the Government of the Cayman Islands. Those services are provided in accordance with the requirements set out in the *Public Management and Finance Law (2005 Revision)*, sections 58 to 69.

We discuss our performance in 2009/10 and compare it to our approved plans and budgets. The original *Annual Budget Statement* was approved in the Legislative Assembly in October 2009. The Office did not have any supplemental budgets for the year ending 30 June 2010.

Summary of Performance

Output Performance:

AUD-01 Financial Statement & Output Audits

During 2009/10, we signed 24 (2008/09: 34) financial statement audit opinions for ministries, portfolios, statutory authorities, and government companies in the Cayman Islands Government. We also signed 3 output statement audit opinions during 2009/10 (2008/09: 11). We invoice agencies directly for this work and report our revenues as "audit services provided to other government agencies". In 2009/10 we billed \$1,491,308 (2008-09: \$1,447,247) as shown in our Statement of Financial Performance.

This revenue stream comprised 72% (2008-09: 72%) of our total revenues.

AUD-02 Investigations and Reports

Reports issued:

We issued five special reports to the Legislative Assembly in 2009/10:

1. ***Special Report of the Auditor General on the State of Financial Accountability Reporting (Update)*** – issued in April 2010; this audit assessed the current state of financial accountability reporting and how well the Government is doing to correct the dire situation found when the Office first reported on this matter in July 2008.

The Report described the deplorable state of financial accountability reporting as a national crisis that could lead to tremendous consequences if not addressed immediately.

2. ***Special Report of the Auditor General on the Review of the Legal Aid Program*** – issued in March 2010; the objectives of the audit were to assess how well legal aid funding was distributed and whether the Legislative Assembly had been getting good information about the Program.

The audit concluded that legal aid funding was granted to those who were entitled to receive it according to the Legal Aid Law, but that more guidelines were needed to

ensure consistency and fairness for the legal aid application process. In addition, we reported that the Legislative Assembly had not been getting good information about the Program.

3. ***Special Report of the Auditor General on Internal Audit's Report of Fuel Card Usage and Management*** – This report issued in March 2010 discussed the findings of an Internal Audit review of the use of fuel cards within five government entities. This report found there was poor control for the distribution of fuel to government agencies.
4. ***Special Report of the Auditor General on the Review of Expenditures for Operations Tempura and Cealt*** – issued in October 2009; the objectives of the audit were to provide a full accounting of costs associated with the two special police investigations and assess whether the government had managed the initiatives effectively. The report concluded that the Government did not have adequate oversight and management processes in place to manage contracts and report expenditures to the Cabinet as well as providing the means to ensure due regard for value-for-money.
5. ***Special Report of the Auditor General on the Loans and Expenditures of Funds Boatswain's Beach*** – issued in October 2009; this audit reported on the management of loans and hospitality expenses for the former Managing Director of Boatswain's Beach. This audit was carried forward as a minor report from the previous fiscal year.

Other Minor Reports – Advisory & Consultations. During the year, we provided advice to various entities across government. In particular, we finalized our own 2008-09 Annual Report, and the 2009-10 and 2010-11 Annual Budgets. In addition, we prepared a report for the Ministry of Education on the construction of schools and provided advisory services to the RCIPs in regards to the ongoing investigation at UCCI. Due to their sensitivity we have not released some of these reports into the public domain. We also began gathering information for potential future value-for-money audits.

AUD-03 Advice, Assistance and Reports to the Legislative Assembly and its Committees

As noted under AUD-02, we submitted five special reports to the Speaker in 2009/10. Under section 77(3) of the Standing Orders of the Legislative Assembly, these reports became public documents when submitted to the Speaker of the Legislative Assembly.

The Office provides assistance to the Legislative Assembly and its Committees in a number of ways including providing briefing materials to the Public Accounts Committee ("PAC") prior to and during its meetings. There were several PAC meetings held during year and eight reports were issued by the Committee. In addition, the PAC also tabled the Annual Reports of the Office of the Auditor General for the years ending 30 June 2008 and 30 June 2009.

At 30 June 2010, there was one audit report outstanding for the PAC to review, the *Special Report of the Auditor General on Affordable Housing Initiative*, which was submitted in March 2005. This Report is not a public document as it was tabled under the Legislative Assembly's previous Standing Orders.

AUD-08 Support Services to the National Hurricane Committee and Hazard Management

The Office provides support services to the National Hurricane Committee and Hazard Management Cayman Islands. We participate in the National Hurricane Committee's annual exercises and preparation meetings. We also provide management oversight to the Support Services Cluster and Essential Relief Services and International Aid Management sub-committee.

To do our work, we are to put in place memoranda of understanding with the Police, Customs and the Port Authority to help with the coordination of international aid management. In 2009-10 these memoranda of understandings were not updated, but should be finalized in early 2010-11.

Ownership Performance

In 2009/10, we had an operational deficit of \$111,432 as a result of recognizing interagency charges at fair value, which were not included in the 2009/10 budget. The policy of Government for the 2009/10 budget year was not to charge for any goods or services received from other core government entities, except for audit fees. Consequently, we had not increased our charge out rates to cover these extra costs. We have estimated the fair value of these contributed goods and services received to be \$181k, with \$10k being applied to personnel costs and \$171k to operating expenses. In addition, this has been recorded as a capital contribution from Government.

Table 1: Comparison of Actual to Original Budget

	2009/10 Actual \$000	2009/10 Original Budget \$000	Actual Variance From Original Budget \$000	Actual Variance From Original Budget %
Revenue				
Audit services to Public Accounts Committee	574	688	(114)	(16.6%)
Audit services to other government agencies	1,491	1,499	(8)	(0.5%)
Total Operating Revenue	2,065	2,187	(122)	(5.6%)
Expenses				
Personnel costs	1,723	1,776	(53)	(3.0%)
Operating expenses	436	391	45	11.5%
Depreciation	18	20	(2)	(10.0%)
Total Expenses	2,177	2,187	(10)	(0.5%)

More detailed financial information is contained in our financial statements (see pages 30 to 48).

During 2009/10 we had lower revenues from budget for audit services to PAC (Output AUD-02) as a result of our focus on clearing the backlog of audited financial statements for government as shown in Table 1 above. Our resources were shifted over to audit services to other government agencies, which we were close to budget as we anticipated having to clear a backlog of financial statement audits.

We reduced our expenditures by 0.5% from the budgeted amount as shown in Table 1 above. We achieved savings by not hiring consultants to clear the back log of audits as we had planned and shifted our resources from value-for-money audits to financial statement audits. If the estimated fair value of contributed goods and services in the amount of \$181k were not included in expenses we would have achieved an 8.7% savings from the budgeted amount.

We managed to reduce our personnel costs from budget by delaying the hiring of two audit project leaders to replace employees who resigned during the year. In addition, we saved expenditures when the finance and administration manager was off on maternity leave for seven months, of which three months was unpaid and some of her duties were covered by other staff within the Office instead of hiring temporary help.

In addition, the previous Auditor General's contract was not renewed in May 2010 and there was a delay in appointing the new Auditor General. The new Auditor General took office on 12 July 2010.

In June 2010, we had one employee retire early on medical grounds.

Part A

Outputs Delivered During the Year

INDEPENDENT PRACTITIONERS' REPORT

TO THE PRESIDING OFFICER OF THE LEGISLATIVE ASSEMBLY OF THE CAYMAN ISLANDS

REPORT ON STATEMENTS OF OUTPUTS DELIVERED

We have performed assurance procedures on the statements of outputs delivered (the "Statements") of the Office of the Auditor General (the "Audit Office") as presented on pages 10, 13-14, and 18 of the Annual Report for the year ended 30 June 2010.

The Statements consist of the following outputs:

- i) AUD-02 – Investigations and Reports
- ii) AUD-03 – Advice, Assistance and Reports to the Legislative Assembly and its Committees
- iii) AUD-08 – Support Services to the National Hurricane Committee and Hazard Management

Responsibilities

The Statements are the responsibility of the Auditor General. The Auditor General is required under section 44 (2) of the *Public Management and Finance Law (2005 Revision)* to present the following performance indicators for the Audit Office:

- 1) Quantitative measures of the outputs delivered during the year ended 30 June 2010.
- 2) Qualitative measures of the outputs delivered during the year ended 30 June 2010.
- 3) Timeliness measures of the outputs delivered during the year ended 30 June 2010.
- 4) Location of the delivery of outputs during the year ended 30 June 2010.
- 5) Financial measures of the actual revenue earned and the actual costs incurred in respect of each output for the year ended 30 June 2010.
- 6) Budgeted costs for each output as duly approved in the "Annual Budget Statement 2009/10".

Our responsibility is to provide a report on the Statements based on our assurance procedures.

Scope

Except as discussed in the "Scope Limitations" paragraphs below, we conducted our assurance procedures on the Statements in accordance with International Standards on Assurance Engagements 3000 (Revised): "Assurance Engagements Other Than Audits Or Reviews Of Historical Financial Information" issued by the International Auditing and Assurance Standards Board.

Our assurance procedures on the Statements were planned and performed to obtain all information and explanations we considered necessary to issue our report based on a reasonable level of assurance. Our assurance procedures included examining, on a test basis, evidence supporting the amounts and other disclosures included in the Statements and making enquiries of key members of management and the staff of the Audit Office. These procedures have been undertaken to enable us to issue our report as to whether, in all material respects, the Statements present fairly the indicated performance of the Audit Office for the year ended 30 June 2010, as measured by reference to the parameters provided by the Auditor General which are included on pages 11, 15-16, and 19-20 of the Annual Report.

INDEPENDENT PRACTITIONERS' REPORT (CONTINUED)

Scope Limitations

The parameters included in pages 11, 15-16, and 19-20 of the Annual Report for each of the output measures included in the Statements have been provided to us by the Auditor General and are solely his responsibility. We do not accept responsibility for the determination of these parameters as the basis of measure for each of the outputs, or for their appropriateness or relevance.

We have not reviewed, nor do we accept responsibility for, the accuracy of the information contained in the "Description" field of each Statement or the "Explanation of Variances" commentary following each Statement. The information and commentary included therein has been determined by the Auditor General in his best judgment and as such its accuracy and relevance are solely his responsibility.

Opinion

In our opinion, except for such adjustments and additional information or clarification, if any, which we may have determined to be necessary if we were able to perform procedures to remove the scope limitations discussed in the "Scope Limitations" paragraphs above, the Statements as presented on pages 10, 13-14, and 18 of the Annual Report present fairly, in all material respects, the performance of the Audit Office for the year ended 30 June 2010, as measured by reference to the parameters included on pages 11, 15-16, and 19-20 of the Annual Report.

PricewaterhouseCoopers

30 October 2010

2. Outputs Delivered

AUD-02		Investigations and Reports		
Description One audit report on the Government's annual financial statements. Investigations and Reports on: <ul style="list-style-type: none"> • Management of executive transactions • Financial Management of Entire Public Sector or of any Ministry, Portfolio, Statutory Authority or Government Company • Economy, efficiency and effectiveness - value-for-money (VFM) • Information systems controls 				
Measures		2009/10 Actual	2009/10 Original Budget	Annual Variance
Quantity	<ul style="list-style-type: none"> • Special Investigations in response to requests • Value-for-money planned audits/reviews • Minor reports – advisory and consultations 	1 1 4	1-3 2 3	(0-2) (1) 1
	<u>Completion of Work in Progress Brought Forward 2008-09</u> <ul style="list-style-type: none"> • Value-for-money planned audits/reviews • Minor reports – advisory & consultations 	2 1	3 2	(1) (1)
Quality	<ul style="list-style-type: none"> • Issued Special Investigation, VFM, and Minor Reports are to be reviewed and signed off by Audit Manager and/or Auditor General • Request client's comments on the draft report and amend the final report if necessary 	100% 100%	100% 100%	0% 0%
Timeliness	<ul style="list-style-type: none"> • 1-3 Special Investigations to be completed throughout the year • VFM audits/reviews to be completed throughout the year - (1 by end of January 2010, 1 by the end of June 2010) • 3 Minor Reports – advisory and consultations to be completed throughout the year 	100% 100% 100%	100% 100% 100%	0% 0% 0%
	<u>Completion of Work in Progress Brought Forward 2008-09</u> <ul style="list-style-type: none"> • Value-for-money planned audits/reviews to be completed by September 2009, January 2010, and April 2010 • Minor reports – advisory and consultations by November 2009 	100% 100%	100% 100%	0% 0%
Location	Office of the Auditor General, 3 rd Floor, Anderson Square, George Town Client Premises – Cayman Islands	100%	100%	0%
Cost (of producing the output)		\$397,917	\$550,000	(\$152,083)
Price (paid by Cabinet for the output)		\$474,356	\$550,000	(\$75,644)
Related Broad Outcomes: 2. Restoring Prudent Fiscal Management				

Explanation of Percentages used in Output Statement AUD 2 – Investigations & Reports:

Quantitative Measure Explained:

The bases for quantitative measures were by a simple count of:

- Special Investigations in response to requests – reports issued to the Legislative Assembly
- Value-For-Money planned Audits/Reviews – reports issued to the Legislative Assembly
- Minor Reports – advisory and consultations – reports issued to the Legislative Assembly and or other entities
- Value-For-Money planned Audits/Reviews (work carried forward from previous year) – reports issued to the Legislative Assembly
- Minor Reports – advisory and consultations (work carried forward from previous year) – reports issued to the Legislative Assembly and or other entities.

Quality Percentage's Explained:

For the 2009/10 year we indicated quality by the percentage in which we expect all reports issued by the Office of the Auditor General to be reviewed and signed off by an Audit Manager and/or the Auditor General.

0% - indicates the report was not reviewed by an Audit Manager and/or the Auditor General.

100% - indicates the report has been reviewed by an Audit Manager and/or the Auditor General.

In addition, we expect all draft reports to be sent to the client for comment and issued report amended as necessary. We believe this provides for a more fair and balanced report.

0% - No request was sent to client for comment on draft report

100% - Request sent to client for comment and reports amended as necessary.

For each report issued if one of these criteria are not met then the percentage of quality would be reduced. For example if one report out of five reports issued for the year was not reviewed by the Audit Manager and/or the Auditor General then the quality percentage would be 80% (i.e. four out of the five reports met the criteria).

Timeliness Percentage's Explained:

For the 2009/10 year we indicated timeliness by the percentage in which we expected to produce the actual report. Therefore the following percentage's should be applied:

0% - report not issued as expected or the fieldwork was not completed in a timely manner.

100% - report issued in the timeframe indicated.

For each report issued if one of these criteria are not met then the percentage of timeliness would be reduced. For example if one report out of five reports issued for the year was not issued in the timeframe indicated within the budget, then the timeliness percentage would be reduced to 80% (i.e. four out of the five reports met the criteria).

Location Percentage's Explained:

For the work we carry out we indicate where the location of the work is to be performed – 3rd Floor Anderson Square, George Town (our Office location) and at the client's premises – Cayman Islands.

0% - Fieldwork not performed at the Office of the Auditor General or client's premises.

100% - Fieldwork performed at the Office of the Auditor General or client's premises.

Financial Measures Explained:

The bases for financial measures were as follows:

- i) Actual revenue - as recorded for reports included for this output in the accounting records of Office of the Auditor General ("OAG") for the year ended 30 June 2010.
- ii) Actual costs – as recorded for reports included for this output in the accounting records of the OAG for direct costs and indirect costs allocated on the basis described in Part 8 of the Financial Regulations (2008 Revision) for the year ended 30 June 2010.
- iii) Budgeted cost – as recorded in the Annual Budget Statement 2009/10 for the OAG.

Explanation of Variances for Output Statement AUD 2 – Investigations & Reports:

Quantity:

While we plan to complete certain audits and investigations during the year, typically we receive other requests which can change our priorities. In 2009/10 we had anticipated completing 11-13 reports. Five reports were budgeted to be carried forward from 2008/09, of which we completed three. Overall, we completed nine reports throughout the year. Therefore we missed our overall budget by 2-4 reports. This was a result of changing priorities near the end of the fiscal year where we concentrated on completing the back log of financial statement audits for various government agencies.

Cost & Price Paid

The price paid for producing the outputs was more than expected due to the individuals working on these projects were at a higher level and therefore the charge out rate was more.

The reason for lower price paid and costs from budget for AUD-02 Investigations and Reports was the Office's focus on clearing the backlog of audited financial statements for government. Therefore our resources were shifted from investigations and reports work to providing audit services to other government agencies to audit their financial statements.

AUD-03		Advice, Assistance and Reports to the Legislative Assembly and its Committees		
Description				
<p>The Office of the Auditor General reports are submitted to the Speaker of the Legislative Assembly and are referred to the Public Accounts Committee (PAC) to be reviewed. Advice and assistance is provided to the PAC through attendance at PAC meetings and in drafting the PAC report. PAC will table its report in the Legislative Assembly (LA) along with the Auditor General's report.</p>				
Measures		2009/10 Actual	2009/10 Original Budget	Annual Variance
Quantity	<ul style="list-style-type: none"> • Special Report - Caribbean Utilities Company Ltd - Summary Report (submitted to PAC March 2005) • Special Report - The Affordable Housing Initiative (submitted to PAC March 2005) • Auditor General's Report on the financial statements of the Government of the Cayman Islands for the Year ended 30 June 2004 (submitted to PAC December 2005) • Special Report – The Royal Watler Cruise Terminal Capital Project (submitted to PAC May 2006) • Special Report – CI Government Property Insurance Settlement – Post Ivan (submitted to PAC February 2007) • Special Report - The Review of the Debt Financing Arrangements for Boatswain's Beach (submitted to PAC July 2007) • Special Report - The State of Financial Accountability Reporting (submitted to PAC July 2008) • Special Report - The Scrap Metal Tender and Contract with Matrix International Inc. (Submitted to PAC August 2008) • Special Report - the Purchase of a Helicopter by the Royal Cayman Islands Police (Submitted to PAC October 2008) • Special Report – on the Review of Gasoline Charges incurred by Pedro St. James and the Policies and Procedures in Place for the period July 2003 to April 2007 (submitted to PAC in January 2009) 	<p>100%</p> <p>0%</p> <p>100%</p> <p>100%</p> <p>100%</p> <p>100%</p> <p>100%</p> <p>85%</p> <p>100%</p> <p>100%</p> <p>100%</p>	<p>100%</p> <p>100%</p> <p>100%</p> <p>100%</p> <p>100%</p> <p>100%</p> <p>100%</p> <p>100%</p> <p>100%</p> <p>100%</p>	<p>0%</p> <p>(100%)</p> <p>0%</p> <p>0%</p> <p>0%</p> <p>0%</p> <p>(15%)</p> <p>0%</p> <p>0%</p> <p>0%</p>
	<p>Per 2009/10 Budget – 1-3 Special Investigation Reports to be submitted to PAC in 2009/10 (note only 1 actual report submitted):</p> <ul style="list-style-type: none"> • Special Report – on the Review of the Legal Aid Program (submitted to PAC March 2010) 	<p>85%</p>	<p>0-80%</p>	<p>5-85%</p>

	<p>Per 2009/10 Budget – 5 value-for-money audit/review Reports to be submitted to PAC in 2009/10 (note only 3 actual reports submitted):</p> <ul style="list-style-type: none"> • Special Report – on the Review of Expenditures for Operations Tempura and Cealt (submitted to PAC October 2009) • Special Report – on the State of Financial Accountability Reporting (Update) (submitted to PAC April 2010) • Special Report – on Internal Audit's Report of Fuel Card Usage and Management (submitted to PAC March 2010) 	85%	0-75%	10-85%
	<p>Per 2009/10 Budget – 4 Minor Reports – advisory and consultation Reports submitted to PAC in 2009/10 (note only 3 actual reports submitted):</p> <ul style="list-style-type: none"> • Special Report – Loans and Expenditures of Funds at Boatswain's Beach (submitted to PAC October 2009) • Annual Report of the Office of the Auditor General for the Year Ending 30 June 2008 (submitted to PAC October 2009) • Annual Report of the Office of the Auditor General for the Year Ending 30 June 2009 (submitted to PAC October 2009) 	85%	50-100%	35-(15)%
		100%	50-100%	0-50%
		100%	50-100%	0-50%
Quality	<p>Comments provided on the PAC Reports by an Audit Manager and/or the Auditor General prior to tabling it in the LA</p> <p>Provision of Committee support services to the satisfaction of the PAC.</p>	25%	100%	(75%)
		100%	100%	0%
Timeliness	<p>Advice and assistance to be provided when required and agreed with the Public Accounts Committee.</p> <p>Auditor General Reports become public documents within one week of submission to the Honourable Speaker of the Legislative Assembly.</p> <p>Public availability through website within two days after becoming a public document.</p>	100%	100%	0%
		56%	100%	(44%)
		67%	100%	(33%)
Location	<p>Office of the Auditor General, 3rd Floor Anderson Square, George Town</p> <p>Legislative Assembly Building, Grand Cayman</p>	100%	100%	0%
	Cost (of producing the output)	\$85,186	\$98,000	(\$12,814)
	Price (paid by Cabinet for the output)	\$95,000	\$98,000	(\$3,000)
Related Broad Outcomes:				
2. Restoring prudent fiscal management				

Explanation of Percentages used in Output Statement AUD 3 – Advice, Assistance and Reports to the Legislative Assembly and its Committees:

Quantity Percentage's Explained:

Based on our experiences to date in providing advice and assistance to PAC, we have broken the process into 4 main stages. The 4 stages, and the usual percentages of the total effort expended in each stage, are explained below:

0 - 69%. The initial step to providing assistance and advice to PAC begins when the Auditor General submits a Report to PAC for their review. No measure for this output is recognized until we have held initial meetings with PAC to brief them on the report. Thereafter we will suggest a list of witnesses that PAC may wish to call and potential questions to be asked of the witnesses based on the report.

70 - 89%. Auditor General and applicable staff from the Office attend PAC meetings held where witnesses are called and questions posed to the witnesses. The Auditor General provides specific information or advice to the PAC when called upon to do so during the meeting and/or will provide supporting documentation afterwards.

90 - 99%. The Office of the Auditor General provides support to the PAC in drafting their report on the Auditor General's Report and the evidence they have gathered from the witnesses and make recommendations to the Legislative Assembly.

100%. The PAC report is tabled in the Legislative Assembly along with the Auditor General's Report.

It should be noted that these activities are the responsibility of the PAC. The Office of the Auditor General does not control the timing or the contents of these reports. It only acts in an advisory role to assist the PAC.

Quality Percentage's Explained:

Comments provided on the PAC Reports by the Audit Manager and/or the Auditor General prior to tabling it in the LA.

- 0%** - this was not performed
- 100%** - performed

For each PAC Report issued if one of these criteria is not met then the percentage of quality would be reduced. For example if comments were not provided by the Audit Manager and/or the Auditor General for one report out of five reports issued for the year then the quality percentage would be 80% (i.e. four out of the five reports met the criteria).

In regards to the provision of Committee support services to the satisfaction of PAC, their satisfaction is measured by a confirmation letter at year end.

- 0%** - PAC confirmed that support services were not to its satisfaction
- 100%** - PAC confirmed that support services were to its satisfaction

Timeliness Percentage's Explained:

- 0%** - Advice and Assistance not provided within the timeframe required and agreed with the PAC
- 100%** - Advice and Assistance provided within the timeframe required and agreed with the PAC.

Timeliness is only measured on Auditor General reports and not PAC reports. In regards to Auditor General reports being made publicly available in a timely manner, the percentage is based on the number of reports made available. For example, if two reports were made public during the current fiscal year, but only 1 report was made publicly available within the timeframe anticipated then the timeliness percentage would be recorded as 50%.

The basis for the timeliness measures are as follows:

- 0%** - Auditor General Reports did not become public documents within one week of submission to the Honourable Speaker of the Legislative Assembly.
- 100%** - Auditor General Reports are public documents within one week of submission to the Honourable Speaker of the Legislative Assembly.

Explanation of Percentages used in Output Statement AUD 3 – Advice, Assistance and Reports to the Legislative Assembly and its Committees (continued):

Timeliness Percentage's Explained (continued):

- 0%** - Auditor General Reports did not become publicly available within two days on the Government website upon notification from the Clerk of the Legislative Assembly or Chair of PAC that the report could be made public.
- 100%** - Auditor General Reports are publicly available within two days on the Government website upon notification from the Clerk of the Legislative Assembly or Chair of PAC that the report could be made public.

Location Percentage's Explained:

For the work we carry out we indicate where the location of the work is to be performed – 3rd Floor Anderson Square, George Town (our Office location or the Legislative Assembly).

- 0%** - Fieldwork not performed at the Office of the Auditor General or the Legislative Assembly
- 100%** - Fieldwork performed at the Office of the Auditor General or the Legislative Assembly.

Financial Measures Explained:

The bases for financial measures were as follows:

- i) Actual revenue - as recorded for reports included for this output in the accounting records of Office of the Auditor General ("OAG") for the year ended 30 June 2010.
- ii) Actual costs – as recorded for reports included for this output in the accounting records of the OAG for direct costs and indirect costs allocated on the basis described in Part 8 of the Financial Regulations (2008 Revision) for the year ended 30 June 2010.
- iii) Budgeted cost – as recorded in the Annual Budget Statement 2009/10 for the OAG.

Explanation of Variances for Output Statement AUD 3 – Advice, Assistance and Reports to the Legislative Assembly and its Committees:

Quantity

There were 10 Reports of the Public Accounts Committee tabled in the Legislative Assembly during the 2009/10 fiscal year. The majority of the back log of Auditor General Reports have been dealt with except for, the Special Report of the Auditor General on the Affordable Housing Initiative, which was submitted to PAC in March 2005.

PAC held witness meetings on the five new Reports submitted during the fiscal year. The PAC now needs to draft their own reports based on the witness meetings and table them in the Legislative Assembly along with the Auditor General's Report.

Quality:

For the 2009/10 fiscal year the new PAC Chairman changed the way in which the PAC Reports are produced. The PAC Chairman no longer has the Office help prepare and review the PAC's Reports for accuracy prior to tabling. Therefore, we only provided input on two of the eight (25%) PAC Reports tabled in the LA as these were carried forward from the previous PAC. The two Annual Reports of the Office of the Auditor General were not included in calculating the percentage.

Timeliness

Five of the nine (56%) Reports submitted to the Honourable Speaker of the Legislative Assembly were made a public document within one week of submission and six of nine (67%) were included on Government's website within the 2 day timeline of being able to make it a public report. The reports that were not made a public document within of week of submission and did not get placed on Government's website within two days after becoming a public document were: the Annual Reports of the Office of the Auditor General for the years ending 30 June 2008 and 30 June 2009; the Auditor General's Report on the financial statements of the Government of the Cayman Islands for the Year ended 30 June 2004. We were not informed that these Reports were tabled in the Legislative Assembly and therefore had not published them to the Government's website, subsequently, these Reports are now included on Government's website. In addition, the Special Report of the Auditor General on the Review of the Legal Aid Program was not made a public document within one week of being submitted to the Honourable Speaker, but was made publically available within the 2 days of notification from the PAC chairman that it could be made a public document hence the 67% timeliness for this measure.

AUD 8		Support Services to the National Hurricane Committee and Hazard Management		
Description Advice and assistance to the National Hurricane Committee ("NHC") and Hazard Management Department				
Measures		2009/10 Actual	2009/10 Original Budget	Annual Variance
Quantity	<ul style="list-style-type: none"> Memo of Understanding (MOU) updated annually for coordination of National Hurricane / international aid management resources Attend National Hurricane Committee's annual preparation meetings Attend International Aid Management ("IAM") meetings / NHC Administrative meetings Training session provided on Logistics Support System ("LSS") for distribution of international aid Update Hazard Management Plan Report Provide relief support services for disasters 	0 1 2 0 1 0	3 1-3 3-6 1 1 0-1	(3) (0-2) (1-4) (1) 0 (0-1)
Quality	<ul style="list-style-type: none"> MOUs are negotiated and signed off by the Auditor General and other party Attendance and participation in annual NHC preparation meetings at an acceptable level to the NHC Chair LSS Training evaluation rated as very good by 80% of the participants Hazard Management Plan in accordance with template issued by Hazard Management Department Relief support services provided at an acceptable quality to the National Emergencies Operations Centre Director 	0% 100% 0% 100% N/A ¹	100% 100% 100% 100% 100%	(100%) 0% (100%) 0% N/A ¹
Timeliness	<ul style="list-style-type: none"> MOU signed off by June 15 NHC annual preparation meeting held in May/June LSS training session to be held in May Hazard Management Plan submitted by May 31 Relief support services provided within 2 days of the disaster 	0% 100% 0% 0% N/A ¹	100% 100% 100% 100% 100%	(100%) 0% (100%) (100%) N/A ¹
Location	Cayman Islands	100%	100%	0%
Cost (of producing the output)		\$6,911	\$40,000	(\$33,089)
Price (paid by Cabinet for the output)		\$4,473	\$40,000	(\$35,527)
Related Broad Outcomes:				
2. Restoring prudent fiscal management				

¹ N/A – no relief support services provided.

Explanation of Numbers & Percentages used in Output Statement AUD 8 – Support Services to the National Hurricane Committee and Hazard Management

Quantity Percentage's Explained:

The quantities are measured by a simple count of:

- i) number of the memorandums updated and signed off annually,
- ii) number of National Hurricane Committee meetings attended,
- iii) number of international aid management / NHC Administrative meetings attended,
- iv) training sessions held on LSS,
- v) hazard management plan updated, and
- vi) number of times relief support services are provided

Quality Percentage's Explained:

The quality percentage is defined for each area as follows:

- i) Memos of Understanding are negotiated and signed off by the other party and Auditor General
 - 0% - not signed off,
 - 100% - signed off by both parties
- ii) Attendance and participation in annual NHC preparation meetings at an acceptable level to the NHC Chair
 - 0% - attendance and participation in NHC preparation meetings not at an acceptable level to the NHC Chair
 - 100% - attendance and participation in NHC preparation meetings at an acceptable level to the NHC Chair
- iii) LSS Training session rated as very good by 80% of the participants
 - 0% - training session not held and/or evaluations not completed by participants
 - 100% - 80% of participants rated training session as very good
- iv) Hazard Management Plan in accordance with template issued by the Hazard Management Department.
 - 0% - hazard management plan not in accordance with the template issued by the Hazard Management Department
 - 100% - Hazard management in accordance with the template issued by the Hazard Management Department
- v) Relief Support services provided at an acceptable quality to the Director of National Emergencies Operations Centre ("NEOC")
 - 0% - relief support services not provided at an acceptable quality to the NEOC Director
 - 100% - relief support services provided at an acceptable quality to the NEOC Director

Timeliness Percentage's Explained:

For 2009/10, we assessed timeliness by percentages for the dates we expected:

- i) MOU's to be signed,
- ii) NHC annual meetings to be held,
- iii) LSS Training to be held
- iv) Hazard Management Plan was to be submitted
- v) Relief services provided within 2 days of disaster.

Therefore the following percentages have been applied in the Statement of Outputs Delivered:

0% - the MOU, NHC annual meetings, LSS training, Hazard Management plan, and relief support services were not signed off by the expected date, not held by the expected date, not submitted by the expected date, and not provided within 2 days of the disaster, respectively.

100% - the MOU, NHC annual meetings, LSS training, Hazard Management plan, and relief support services were signed off by the expected date, held by the expected date, submitted by the expected date, and provided within 2 days of the disaster, respectively.

Explanation of Numbers & Percentages used in Output Statement AUD 8 – Support Services to the National Hurricane Committee and Hazard Management (continued)

Location Percentage's Explained:

For the work we carry out we indicate the location of the work is to be performed in the Cayman Islands.

0% - work not performed in the Cayman Islands.

100% - work performed in the Cayman Islands.

Financial Measures Explained:

The bases for financial measures were as follows:

- i) Actual revenue - as recorded for reports included for this output in the accounting records of Office of the Auditor General ("OAG") for the year ended 30 June 2010.
- ii) Actual costs – as recorded for reports included for this output in the accounting records of the OAG for direct costs and indirect costs allocated on the basis described in Part 8 of the Financial Regulations (2008 Revision) for the year ended 30 June 2010.
- iii) Budgeted cost – as recorded in the Annual Budget Statement 2009/10 for the OAG.

Explanation of Variances for Output Statement AUD 8 – Support Services to the National Hurricane Committee and Hazard Management:

Quantity

We did not update any of the Memoranda of Understanding (MOU) for coordination of National Hurricane international aid management resources during the year. These MOU's were to be with the Port Authority, Customs, and the Police. In addition, we did not provide training on the LSS for audit staff. We attended one to four less NHC Administrative meetings than budgeted for during the 2009/10 fiscal year. There were no disasters during the 2009/10 fiscal year that we had to provide relief services for.

Quality

We did not achieve quality percentages for the MOUs as we did not get agreement and sign-off by the other party. In addition, we did not provide LSS training to our staff.

Timeliness:

We were not timely in the sign-off of the MOU as this was not completed during the fiscal year and the LSS training since it was not held during the fiscal year.

The annual preparation meetings were held in May 2009 and we were in attendance. We were one day late in submitting our Hazard Management plan in a timely manner and therefore have recorded it as 0% for timeliness.

Cost & Price Paid

We planned to complete the MOUs, hold more meetings, provide LSS training and resources in case of a disaster. These did not materialize and therefore, we were significantly under-budget.

3. Payment Arrangements

The Public Accounts Committee ("PAC") pays the Office of the Auditor General for delivery of the outputs described in Part 2 Outputs Delivered.

Invoices are typically paid within 20 days of the end of the month following the invoice date.

The following table outlines the actual amount versus the budgeted amount of each invoice for outputs to be delivered during the year.

Table 2: Actual Versus Expected Invoice Profile

MONTH	ACTUAL AMOUNT OF INVOICE FOR OUTPUTS SUPPLIED: \$573,829							
	Actual AUD 2	Final Budget AUD 2	Actual AUD 3	Final Budget AUD 3	Actual AUD 8	Final Budget AUD 8	Actual Total	Final Budget Total
July	\$58,805	\$59,000	\$11,625	\$12,000	-	-	\$70,430	\$71,000
August	\$54,837	\$55,000	\$3,910	\$12,000	-	-	\$58,747	\$67,000
September	\$32,972	\$55,000	\$2,025	\$12,000	-	\$8,000	\$34,997	\$75,000
October	\$37,643	\$55,000	\$2,352	\$5,000	\$90	\$7,000	\$40,085	\$67,000
November	\$17,672	\$35,000	\$4,010	\$5,000	-	\$6,000	\$21,682	\$46,000
December	\$47,818	\$35,000	\$1,788	\$5,000	-	-	\$49,606	\$40,000
January	\$63,340	\$40,000	\$962	\$10,000	-	-	\$64,302	\$50,000
February	\$62,221	\$40,000	\$360	\$10,000	-	-	\$62,581	\$50,000
March	\$48,140	\$40,000	\$0	\$6,000	-	-	\$48,140	\$46,000
April	\$42,493	\$40,000	\$920	\$6,000	-	\$5,000	\$43,413	\$51,000
May	\$7,510	\$56,000	\$45,873	\$6,000	\$3,283	\$7,000	\$56,666	\$69,000
June	\$905	\$40,000	\$21,175	\$9,000	\$1,100	\$7,000	\$23,180	\$56,000
TOTAL	\$474,356	\$550,000	\$95,000	\$98,000	\$4,473	\$40,000	\$573,829	\$688,000

Part B

Ownership Performance Achieved During the Year

4. Nature and Scope of Activities

Approved General Nature of Activities

The provision of independent audit services to the Legislative Assembly, comprising of information, advice and assurance on whether Government's activities have been carried out and accounted for in accordance with the Legislature's intention and with due regard to securing value-for-money and the avoidance of waste.

Scope of Activities:

1. Financial Statement attest services:
 - ◆ The Entire Public Sector ("EPS") consolidated financial statements
 - ◆ The financial statements of Ministries, Portfolios Statutory Authorities, Government companies and certain non-public funds.
2. Provision of special investigation services and the production of Auditor General Reports to the Legislative Assembly or management into:
 - ◆ Management of executive transactions
 - ◆ Financial management of EPS or of any Ministry, Portfolio, agency or Statutory Authority
 - ◆ Economy, efficiency, effectiveness in the way any Ministry, Portfolio, agency or Statutory Authority has used its resources in discharging its functions
 - ◆ Information systems audits
 - ◆ Accounting and other specialist technical advice to Chief Officers
 - ◆ Public interest audits suggested by the Legislative Assembly, Public Accountants Committee ("PAC") or Cabinet.
3. Support for public accountability through:
 - ◆ Assistance and advice provided to the Public Accounts Committee
4. Support services to the National Hurricane Committee and Hazard Management through advice and assistance.

Customers and Location of Activities

Customers: The Legislative Assembly, the Public Accounts Committee and Cabinet.
Audit Clients: All Ministries/Portfolios, all Statutory Authorities and Government Companies.
Locations: Office of the Auditor General, 3rd Floor Anderson Square, George Town; Client's offices.

Compliance during the Year

We provided independent audit services to the Legislative Assembly during the year of 2009/10. The nature and scope of the activities are regulated by the *Public Management and Finance Law, (2005 Revision)*. We are pleased to report that the scope of our activities for the year has complied with our mandate in all significant respects.

There were several changes in the prioritization of audits and timing from our plans. We regard this as a normal part of our activities. These changes are discussed in the Summary of Output Performance above.

5. Strategic Ownership Goals

The key strategic ownership goals for the Office in 2009/10 and the subsequent two years are as follows:

- ◆ To develop and strengthen the Office's human resource capability in order to provide an effective and efficient audit service.
- ◆ To ensure that we meet the changing needs and expectations of our stakeholders by focusing our resources on matters offering the greatest potential to improve their performance and accountability.
- ◆ To continuously improve our own business management practices through strategic planning to identify and give priority to the most important risks.
- ◆ To enhance the independence of the Office through greater financial and operational autonomy.
- ◆ To enhance the effectiveness of public accountability through the release of relevant and timely audit reports to all stakeholders.
- ◆ To meet all deadlines and commitments of the *Public Management and Finance Law (2005 Revision)* and the *Public Service Management Law (2007 Revision)* and the *Personnel Regulations, 2006*.

Achievement during the Year

The strategic ownership goals of the Office have not altered from the statements made in our annual budget statement. Progress has been made towards all strategic ownership goals. However, many of these are long-term in nature and will take several years to realize.

The independence of the Office is continuing to improve through the billings of financial attest services to all clients. This provides greater financial autonomy for the Office.

Meeting the deadline and commitments under the *Public Management and Finance Law* continues to be a challenge due to the back log of audits for the various government agencies.

6. Ownership Performance Targets

6.1 Financial Performance

Financial Performance Measures	2009/10 Actual \$	2009/10 Original / Final Budget \$	Annual Variance \$
Revenue from Public Accounts Committee	573,829	688,000	(114,171)
Revenue from ministries, portfolios, statutory authorities, government companies	1,491,308	1,499,000	(7,692)
Revenue from others	-	-	-
Surplus/(deficit) from outputs	-	-	-
Ownership expenses	-	-	-
Operating (Deficit)	(111,432)	-	(111,432)
Net Worth	276,388	206,000	70,388
Cash flows from operating activities	37,580	13,000	24,580
Cash flows from investing activities	(6,290)	(13,000)	6,710
Cash flows from financing activities	-	-	-
Change in cash balances	31,290	-	31,290

Explanation of Variances:

Revenue from the PAC this was \$114,171 less than budget due to the shift in priorities to clear the back log of financial statement audits and the delays in hiring of replacement audit staff.

The Office budgeted to break even, but experienced an operating deficit of \$111,432 due to contributed goods and services of \$180,701 being recognized in the financial statements that was not budgeted for per government's policy for the 2009/10 budget. However, contributed goods and services were recognized as contributed capital and as an operating expense therefore this increased our Net Worth by \$70,388 over budget as a result of the the difference between our deficit and total contributed goods and services.

Actual cash flows from operating activities were \$24,580 higher than what we had budgeted due not having to pay directly for contributed goods and services from other government agencies.

Financial Performance Ratios	2009/10 Actual %	2009/10 Original / Final Budget %	Annual Variance %
Current Assets: Current Liabilities (Working Capital)	183%	157%	26%
Total Assets: Total Liabilities	202%	179%	23%

Explanation of Variances:

These ratios indicate that we should be able to meet all of our current obligations as of 30 June 2010. There was a positive variance of 26% and 23% for both ratios as a result of higher than expected cash and accounts receivables balances at year end than what we had budgeted for.

6.2 Maintenance of Capability

Human Capital Measures	2009/10 Actual	2009/10 Original / Final Budget	Annual Variance
Total full time equivalent staff employed	18	20	(2)
Staff turnover (%)			
Managers	25%	0%	25%
Professional and technical staff	17%	25%	(8%)
Clerical and labourer staff	25%	0%	25%
Average length of service (number of years in current position)			
Managers	6	6	0
Professional and technical staff	3	3	0
Clerical and labourer staff	3.5	7.5	(4)
Changes to personnel management system:	No changes to personnel management system		

Explanation of Variances:

During the year, the Auditor General's contract was not renewed, which resulted in the variance 25% for managers' level. At the Audit Project Leader (professional and technical staff) position we had 2 employees resign during the year which resulted in a variance of (8%) as we anticipated 3 resignations. Under the clerical and labourer staff we had one long serving employee retired based on medical grounds, which resulted in the variance 25% at that level. At year end, there were two positions not filled - the Auditor General position and an Auditor level position.

Physical Capital Measures	2009/10 Actual	2009/10 Final Budget	Annual Variance
Value of total assets	\$544,000	\$466,000	\$78,000
Asset replacements: total assets	1.2%	2.8%	(1.6%)
Book value of assets: initial cost of those assets	43%	40%	3%
Depreciation: cash flow on asset purchases	300%	154%	146%
Changes to asset management policies	None		

Explanation of Variances:

Total assets were more than budget due to the \$32,000 increase in cash position as a result of the increase in operating cash flows and accounts receivables were also \$49,000 greater than what we had budgeted for. The other physical capital measures were in line with our budget, except for depreciation to cash flow on asset purchases. Laptop computer prices have decreased significantly in recent years and therefore the price we paid for the computers we purchased was lower than what we had budgeted for. This therefore, skewed our ratio as depreciation was now significantly more than the cash flow on asset purchases.

Major <u>New</u> Entity Capital Expenditures for the Year	2009/10 Actual \$	2009/10 Final Budget \$	Annual Variance \$
Computers (laptops & desktops)	\$6,290	11,500	(\$5,210)
Office Equipment	-	1,000	(\$1,000)

Explanation of Variances:

Seven laptop computers & one desktop computer were purchased at a cost lower than budgeted. We did not have any purchases of Office equipment during the year.

Major Entity Capital Expenditures continuing from previous years	2009/10 Actual \$	2009/10 Final Budget \$	Annual Variance \$
N/A			

Explanation of Variances:

We have no capital projects in progress.

6.3 Risk Management

Risk	Planned Action to Manage Risk	Actual Action Taken During Year to Manage Risk	Financial Value of Risk
<p>1.a Issuing an inappropriate audit opinion on government accounts, costed outputs and QCTL measures.</p> <p>1.b Inappropriate conclusions and advice to agencies drawn from interim audit attest work.</p>	<p>Internal activity: Improved knowledge of business for all agencies and outputs.</p> <p>More emphasis on risk-based audit planning.</p> <p>Continue development of output audit methodology.</p> <p>Staff training on new developments in accounting and auditing.</p> <p>Reorganization of management structure for more focus on audit quality.</p> <p>External activity: Inviting CO and CFO participation in audit planning to ensure effective co-operation.</p>	<p>Internal activity: Improved knowledge of business for all agencies and outputs.</p> <p>Reorganized management structure so that one Audit manager performs a quality review of each audit file at the planning stage and completion stage to ensure a risk-based audit plan is used and the conclusions from the fieldwork are consistent with the report being issued and the appropriate standards are being followed.</p> <p>Training provided in September 2009 to staff on new International Standards on Auditing and new International Public Sector Accounting Standards and International Financial Reporting Standards</p> <p>External activity: Invited CO and CFO participation in audit planning to ensure effective co-operation.</p>	Not Quantifiable
2. Natural Disaster	<p>Internal Activity: Employee awareness of risk and taking necessary precaution to protect physical assets and important information.</p>	<p>Internal Activity: Employees took necessary precautions to protect physical assets and important information.</p>	Not Quantifiable

Explanation of Variances:

Risks have been managed in a proper manner as a result of reorganizing the management structure to focus on quality of audits and training was provided to staff in September 2009 for new developments in International Standards on Auditing, International Public Sector Accounting Standards, and International Financial Reporting Standards.

7. Equity Investments and Withdrawals

Equity Movement	2009/10 Actual \$	2009/10 Final Budget \$	Annual Variance \$
Equity Investment from Cabinet into the Office of the Auditor General	-	-	-
Capital (Equity) Withdrawal by Cabinet from Office of the Auditor General	-	-	-

Explanation of Variances:

There were no equity investments or withdrawals from the Office of the Auditor General in 2009/10. However, the Office received contributed goods and services from other core government entities during the current year for which no charge was levied and management have estimated the fair value of these contributed goods and services to be \$181k.

Appendix: Financial Statements for the Year ended 30 June 2010

CONTENTS

Statement of Responsibility for Financial Statements	31
Independent Auditors' Report	32
Statement of Financial Position	33
Statement of Financial Performance	34
Statement of Changes in Net Worth	35
Cash Flow Statement	36
Notes to the Financial Statements	37-48

Office of the Auditor General

STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements have been prepared by the Office of the Auditor General in accordance with the provisions of the *Public Management and Finance Law (2005 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 (2005 Revision)*.

As Auditor General and Deputy Auditor General, we are responsible for establishing; and have established and maintain a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Office of the Auditor General.


As Auditor General and Deputy Auditor General, we are responsible for the preparation of the Office of the Auditor General's financial statements and for the judgements made in them.

The financial statements fairly present the financial position, financial performance and cash flows of the Office of the Auditor General for the financial year ended 30 June 2010.

To the best of our knowledge we represent that these financial statements:

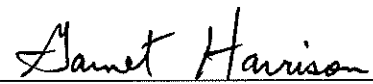
- (a) completely and reliably reflect the financial transactions of the Office of the Auditor General for the year ended 30 June 2010;
- (b) fairly reflect the financial position as at 30 June 2010 and performance for the year ended 30 June 2010;
- (c) comply with International Public Sector Accounting Standards as set out by International Public Sector Accounting Standards Board under the responsibility of the International Federation of Accountants.

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



Alastair Swarbrick, MA (Hons), CPFA
Auditor General

DATE: 30 October 2010



Garnet Harrison, CA
Deputy Auditor General

DATE: 30 October 2010

INDEPENDENT AUDITORS' REPORT

TO THE PRESIDING OFFICER OF THE LEGISLATIVE ASSEMBLY OF THE CAYMAN ISLANDS

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Office of the Auditor General (the "Audit Office") which comprise the statement of financial position as at 30 June 2010 and the statements of financial performance, changes in net worth and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as presented on pages 33 to 48 of the Annual Report.

Management's Responsibility 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

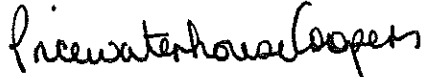
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether 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 on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Audit Office as at 30 June 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.



30 October 2010

OFFICE OF THE AUDITOR GENERAL
 STATEMENT OF FINANCIAL POSITION
 AS AT 30 JUNE 2010
 (Expressed in Cayman Islands Dollars)

2008/09 Actual \$000		Note	2009/10 Actual \$000	2009/10 Final/Original Budget \$000	2009/10 Variance From Original Budget \$000
Current Assets					
70	Cash and cash equivalents	1	102	70	32
319	Accounts receivable & work in progress	2	386	337	49
1	Prepayments		3	1	2
390	Total Current Assets		491	408	83
Non-Current Assets					
65	Property, plant and equipment	3	53	58	(5)
65	Total Non-Current Assets		53	58	(5)
455	Total Assets		544	466	78
Current Liabilities					
142	Accounts payable	4	178	166	12
107	Employee entitlements	5	91	94	(3)
249	Total Current Liabilities		269	260	9
249	Total Liabilities		269	260	9
206	Net Assets		275	206	69
Net Worth					
400	Contributed capital	6	581	400	181
(194)	Accumulated (deficits)		(306)	(194)	(112)
206	Total Net Worth		275	206	69

The accounting policies and notes on pages 37 to 48 form part of these financial statements.

OFFICE OF THE AUDITOR GENERAL
 STATEMENT OF FINANCIAL PERFORMANCE
 FOR THE YEAR 30 JUNE 2010
 (Expressed in Cayman Islands Dollars)

2008/9 Actual \$000		Note	2009/10 Actual \$000	2009/10 Final/Original Budget \$000	2009/10 Variance From Original Budget \$000
	Revenue				
573	Audit Services provided to Public Accounts Committee	7	574	688	(114)
1,447	Audit Services provided to other government agencies	7	1,491	1,499	(8)
2,020	Total Revenue		2,065	2,187	(122)
	Expenses				
1,792	Personnel costs	8	1,723	1,776	(53)
363	Operating Expenses	9	436	391	45
17	Depreciation	3	18	20	(2)
16	Capital charge	10	-	-	-
2,188	Total Expenses		2,177	2,187	(10)
(168)	Net (Deficit) for the period		(112)	-	(112)

The accounting policies and notes on pages 37 to 48 form part of these financial statements.

OFFICE OF THE AUDITOR GENERAL
 STATEMENT OF CHANGES IN NET WORTH
 FOR THE YEAR ENDED 30 JUNE 2010
 (Expressed in Cayman Islands Dollars)

2008/09 Actual \$000	Note	2009/10 Contributed Capital \$000	2009/10 Accumulated (Deficits) \$000	2009/10 Total Net Worth \$000	2009/10 Total Net Worth Final/Original Budget \$000	2009/10 Total Net Worth Variance From Original Budget \$000
374		400	(194)	206	206	-
(168)		-	(112)	(112)	-	(112)
-	6	181	-	181	-	181
206		581	(306)	275	206	69

The accounting policies and notes on pages 37 to 48 form part of these financial statements.

OFFICE OF THE AUDITOR GENERAL
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2010
(Expressed in Cayman Islands Dollars)

2008/9 Actual \$000		Note	2009/10 Actual \$000	2009/10 Final/Original Budget \$000	2009/10 Variance From Original Budget \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts:					
645	Audit services provided to Public Accounts Committee		610	690	(80)
1,552	Audit service provided to other government agencies		1,387	1,479	(92)
3	Interest received		-	-	-
Payments:					
(1,837)	Personnel costs		(1,729)	(1,789)	60
(379)	Suppliers		(226)	(364)	138
(23)	Capital Charge		(4)	(3)	(1)
(39)	Net cash flows generated from / (used in) operating activities	13	38	13	25
CASH FLOWS FROM INVESTING ACTIVITIES					
(23)	Purchase of non-current assets		(6)	(13)	7
(23)	Net cash flows (used in) investing activities		(6)	(13)	7
(62)	Net increase/(decrease) in cash and cash equivalents		32	-	32
132	Cash and cash equivalents at beginning of year		70	70	-
70	Cash and cash equivalents at end of year	1	102	70	32

The accounting policies and notes on pages 37 to 48 form part of these financial statements.

**OFFICE OF THE AUDITOR GENERAL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

Background Information

The Office of the Auditor General (the "Office") was originally established under the Cayman Islands (Constitution) (Order) 1993 under Section 55B and was re-established under the new Cayman Islands Constitution Order 2009 Section 114 as an independent public office. Its mandate and responsibilities are prescribed in sections 58 to 69 of the *Public Management and Finance Law (2005 Revision)* ("PMFL"). The main source of revenue is earned from contracted services provided to the Cayman Islands Government ("the Government"). Some of the work is undertaken by private sector auditors appointed by the Auditor General. The Office is dependent on this source of income to continue in operation for the foreseeable future.

The Office of the Auditor General is located on the Third Floor, Anderson Square, Shedden Road, George Town, Grand Cayman. As of 30 June 2010 the Office has 18 employees (2009: 19).

General Accounting Policies

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. For the 2009/10 financial statement presentation, the Statement of Changes in Net Worth was changed from the name of Statement of Changes in Net Assets in 2008/9 to be consistent with the descriptions used in the Statement of Financial Position for 2009/10. In addition, the Statement of Commitments and the Statement of Contingent Liabilities are no longer disclosed as separate statements for 2009/10 as compared to 2008/9, but are disclosed in the notes to the financial statements.

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 and the measurement base applied to these financial statements is the historical cost basis.

Reporting Period

The reporting period is the year ended 30 June 2010.

Budget Amounts

The 2009/10 original budget amounts were prepared using the accrual basis of accounting and the accounting policies have been consistently applied with the actual financial statement presentation. The 2009/10 original budget was presented in the 2009/10 Annual Budget Statement of the Government of the Cayman Islands and approved by the Legislative Assembly on 14 October 2009. The original budget represents the final budget for the Office as there were no supplemental budgets submitted for approval by the Legislative Assembly.

Judgement and Estimates

The preparation of financial statements in conformity with IPSAS requires judgments, estimates, and assumptions affecting the application of policies and reported amounts of assets and liabilities, revenue and expenses. 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 may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the reporting period that are affected by those revisions. As at 30 June 2010 significant judgements and estimates were made for non-exchange transactions – contributed goods and services provided by Government entities (see Notes 6, 9 and 14). For the year ended 30 June 2009 there were no amounts which required significant judgements or estimates.

**OFFICE OF THE AUDITOR GENERAL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

Specific Accounting Policies

Assets

Cash and cash equivalents

Cash and cash equivalents include cash held in bank accounts in the name of the Office of the Auditor General maintained with the Royal Bank of Canada in the Cayman Islands.

Accounts Receivable

Accounts receivables are recognised initially at fair value and are subsequently measured at amortized cost less a provision for impairment. A provision for impairment of accounts receivables is established when there is objective evidence that the Office will not be able to collect all amounts due according to the original terms of the receivables. Significant delays in payments are considered indicators that the receivable may be impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of financial performance. When an accounts receivable is uncollectible, it is written off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written off are recognized in future periods as revenue in the year in which it is collected.

Work in Progress

Work in progress represents time spent performing contracted services that has not yet been billed. Work in progress is stated at net realisable value.

Property, Plant and Equipment

Property, plant and equipment are carried at historical cost (which includes acquisition cost) less accumulated depreciation and are depreciated on the straight line basis at the following rates and estimated useful lives:

Furniture and fittings	6.66% (15 years) to 20% (5 years)
Computer Equipment	33.33% (3 years)
Office Equipment	10% (10 years) to 33.33% (3 years)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the period end. Assets that are subject to amortisation are reviewed for impairment whenever events of changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amounts. The recoverable amount is the higher of the asset's fair value less costs to sell and its value for use in service.

Liabilities

Accounts Payable

Accounts payable are recognised initially at fair value and subsequently measured at amortized cost.

Employee Benefits

a) *Annual Leave entitlement*

Annual leave due, but not taken, is recognized as a current liability at the current rates of pay.

b) *Pension Obligations*

Pension contributions for employees of the Office are paid to the Public Service Pensions Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board and is operated as a multi-employer non-contributory Fund, whereby the employer pays both employer and employee contributions. Prior to 1 January 2000 the scheme underlying the Fund was a defined benefit scheme. With effect from 1 January 2000 the Fund had both a defined benefit and a defined contribution element. Participants joining after that date became members of the defined contribution element. Pension scheme contributions are included in personnel costs in the statement of financial performance.

OFFICE OF THE AUDITOR GENERAL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

Specific Accounting Policies (continued)

b) *Pension Obligations (continued)*

The Public Service Pension Liability for all civil servants (both current and past) is an executive liability managed by the Minister of Finance and accordingly is not recognized in these financial statements. This liability is to be reported on the Entire Public Sector consolidated financial statements of the Cayman Islands Government.

Surplus Payable

Pursuant to the *Public Management & Finance Law (2005 Revision)* section 39 (3)(f) the Office may "retain such part of its net operating surplus as is determined by the Minister of Finance". When surpluses arise these are booked as a payable to the Cayman Islands Government, unless the Office is directed by the Minister of Finance that the surplus can be retained.

Contributed Capital

Contributed capital relates to initial working capital and start up cash provided to the Office, equity injections for fixed asset acquisitions that are funded by the Cayman Islands Government and contributed goods and services provided by Cayman Islands Government entities to the Office less any surpluses repayable.

Revenue

Audit services revenue

The Office derives its revenue from the Public Accounts Committee ("PAC") and other government entities for audit services provided according to the provisions in the PMFL. These services are defined in the PMFL, which includes financial statement audit work, other assurance work and special investigations undertaken on the initiative of the Auditor General or at the request of the Legislative Assembly or any of its committees or subcommittees. Audit services revenue is recognised in the accounting period in which it is earned.

Expenses

General

Expenses are recognised when incurred on the accrual basis of accounting. In addition, an expense is recognized for the consumption of the estimated fair value of contributed goods and services received.

Depreciation

Depreciation of non-financial physical assets is provided on a straight-line basis at rates based on the expected useful lives of those assets.

Operating Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under the operating leases are recognized as an expense on a straight line basis over the lease term.

Capital Charges

Capital charges on the net assets due to the Cayman Islands Government are recognised as an expense in the period in which they are incurred.

Foreign Exchange

Monetary assets and liabilities denominated in foreign currencies are translated into Cayman Islands dollars at the exchange rate prevailing on the statement of financial position date. Revenue and expense items denominated in foreign currencies are translated in Cayman Islands dollars at the exchange rate prevailing on the transaction date. Gains and losses on translation are included in the statement of financial performance.

**OFFICE OF THE AUDITOR GENERAL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**
(Expressed in Cayman Islands Dollars)

NOTE 1: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents include an operating and payroll account held in the name of the Office of the Auditor General at the Royal Bank of Canada in the Cayman Islands. As at 30 June 2010 the Office held no restricted cash balances (30 June 2009: \$0). No interest was earned during the year on the amounts held in these bank accounts (30 June 2009: \$0).

2008/9 Actual \$000		2009/10 Actual \$000	2009/10 Final/Original Budget \$000	2009/10 Actual vs. Original Budget \$000
70	Bank accounts	102	70	32
70	Total Cash and Cash Equivalents	102	70	32

Explanation of major variances against the original budget and prior year actual:

Cash and cash equivalents increased over budget and prior year actual by \$32k due to the Office having positive cash flows from its operating activities as indicated in the Cash Flow Statement.

NOTE 2: ACCOUNTS RECEIVABLE & WORK IN PROGRESS

2008/9 Actual \$000		2009/10 Actual \$000	2009/10 Final/Original Budget \$000	2009/10 Actual vs. Original Budget \$000
59	Audit services to PAC (work in progress)	23	57	(34)
116	Audit services to other government agencies (accounts receivable)	177	126	51
144	Audit services to other government agencies (work in progress)	186	154	32
319	Total Gross accounts receivable & work in progress	386	337	49
-	Less provision for doubtful debts	-	-	-
319	Total Net accounts receivable & work in progress	386	337	49

Explanation of major variances against the original budget and prior year actual:

The actual dollar amount for work in progress in regards to audit services provided to PAC was \$34k less than budgeted due to a shift in priorities to clear the back log of financial statement audits. This conversely impacted the actual dollar amount of work in progress for audit services provided to other government agencies and therefore there was an increase of \$32k from the amount budgeted. The Office experienced an increase in delay of payments from other government agencies from the prior year which resulted in an increase in accounts receivable by \$61k from the previous year and an increase of \$51k over the budgeted amount.

OFFICE OF THE AUDITOR GENERAL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010
(Expressed in Cayman Islands Dollars)

NOTE 3: PROPERTY, PLANT AND EQUIPMENT

	Furniture & Fittings \$000	Office Equipment \$000	Computer Equipment \$000	Total \$000	2009/10 Final/Original Budget \$000	2009/10 Actual vs. Original Budget \$000
<u>Cost</u>						
At July 1, 2008	60	24	37	121		
Additions	-	16	7	23		
Disposals	-	(12)	-	(12)		
At June 30, 2009	60	28	44	132		
<u>Accumulated Depreciation</u>						
At July 1, 2008	22	15	25	62		
Accumulated depreciation on disposals	-	(12)	-	(12)		
Depreciation charge for the year	7	4	6	17		
At June 30, 2009	29	7	31	67		
Net Book Value at June 30, 2009	31	21	13	65		
<u>Cost</u>						
At July 1, 2009	60	28	44	132	132	-
Additions	-	-	6	6	13	(7)
Disposals	-	-	(15)	(15)	-	(15)
At June 30, 2010	60	28	35	123	145	(22)
<u>Accumulated Depreciation</u>						
At July 1, 2009	29	7	31	67	67	-
Accumulated depreciation on disposals	-	-	(15)	(15)	-	(15)
Depreciation charge for the year	5	6	7	18	20	(2)
At June 30, 2010	34	13	23	70	87	(17)
Net Book Value at June 30, 2010	26	15	12	53	58	(5)

Explanation of major variances against the original budget:

The purchase of computer equipment was less than budget and no purchases were made for office equipment, which resulted in a savings of \$7k overall. In addition, we did not budget for the disposal of computer equipment, which resulted in \$15k difference. The overall difference in net book value versus the budgeted amount was not significant (\$5k).

**OFFICE OF THE AUDITOR GENERAL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**
(Expressed in Cayman Islands Dollars)

NOTE 4: ACCOUNTS PAYABLE

2008/9 Actual \$000		2009/10 Actual \$000	2009/10 Final/Original Budget \$000	2009/10 Actual vs. Original Budget \$000
16	Trade Creditors	48	34	14
96	Surplus Payable	96	96	-
30	Accruals	34	36	(2)
142	Total	178	166	12

Surplus Payable

The Office budgeted to break even and therefore did not budget for any change in surplus payable. The Office experienced surpluses of \$50k for the year ending 30 June 2004, \$46k for the year ending 30 June 2007. Therefore, the Office has a surplus payable to the Cayman Islands Government in the amount of \$96k (30 June 2009: \$96k) as the Minister of Finance has not confirmed whether the Office can retain any of the surpluses achieved in prior years.

Explanation of major variances against the original budget and prior year actual:

Trade Creditors

The Office budgeted to have trade creditors' payable of \$34k versus the actual amount of \$48k, which resulted in a variance of \$14k over budget due to unexpected costs that were incurred near year end. When comparing the increase in Office trade creditors over the prior year, the increase was primarily due to unexpected amounts owing for a severance payable (\$15k) for a staff member who retired on medical grounds near year end, payments owing for the recruitment of the new Auditor General (\$12k), and a CINICO payment owing for June 2010 (\$15k). Other changes in trade creditors payable over the prior year were not significant.

NOTE 5: EMPLOYEE ENTITLEMENTS (CURRENT)

2008/9 Actual \$000	Current Employee Entitlements Are represented by:	2009/10 Actual \$000	2009/10 Final/Original Budget \$000	2009/10 Actual vs. Original Budget \$000
80	Annual Leave	76	71	5
27	Time off in Lieu	15	23	(8)
107	Total Employee Entitlements	91	94	(3)

NOTE 6: CONTRIBUTED CAPITAL – GOODS AND SERVICES

Pursuant to the 2009/10 Annual Budget of the Cayman Islands Government, goods and services provided between core government entities would not incur a cost. Those government entities would bill directly Government for their outputs produced. The Audit Office received goods and services from other core government entities during the current year for which no charge was levied. In accordance with IPSAS 23 – Revenue from non-exchange transactions (taxes and transfers), management have estimated the fair value of these contributed goods and services to be \$181k (see Notes 8, 9 and 14), which was based on amounts paid to those government entities in prior years for similar services received in the current fiscal year. The Office has recorded this transaction as expenses (human resource services, financial support services, legal services, computer hardware & systems support services, and software licensing fees) within the Statement of Financial Performance and as a capital contribution from Government in the Statement of Changes in Net Worth.

In the prior year no non-exchange transactions were recognized as these services were previously paid to those core government entities.

OFFICE OF THE AUDITOR GENERAL
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2010
 (Expressed in Cayman Islands Dollars)

NOTE 7: REVENUE

2008/9 Actual		2009/10 Actual	2009/10 Final/Original Budget	2009/10 Actual vs. Original Budget
\$000		\$000	\$000	\$000
	Revenue			
573	Audit Services provided to Public Accounts Committee	574	688	(114)
1,447	Audit Services provided to other government agencies	1,491	1,499	(8)
2,020	Total Revenue	2,065	2,187	(122)

Explanation of major variances against the original budget and prior year actual:

In regards to audit services provided to PAC this was \$114k less than the budgeted dollar amount due to a shift in priorities to clear the back log of financial statement audits of various Government entities and as a result in the delays of replacing staff.

The actual dollar amount for audit services provided to other government agencies increased by \$44k over the prior year as a result of the focus on clearing the back log of financial statements; however, the Office had budgeted to perform more work in this area and therefore the actual dollar amount was close to the budgeted amount.

NOTE 8: PERSONNEL COSTS

2008/9 Actual		2009/10 Actual	2009/10 Final/Original Budget	2009/10 Actual vs. Original Budget
\$000		\$000	\$000	\$000
1,482	Salaries and wages (including employee pension contributions)	1,400	1,436	(36)
155	Health Insurance	160	168	(8)
85	Employer pension expense	80	81	(1)
70	Other personnel costs	68	91	(23)
-	Severance Pay	15	-	15
1,792	Total Personnel Costs	1,723	1,776	(53)

Explanation of major variances against the original budget and prior year actual:

Salaries & Wages

In 2009/10, the Office managed to reduce salaries from budget by \$36k and prior year actual by \$82k as a result of delays in hiring employees and the new employees hired were offered salaries at a lower pay grade than the incumbents whom they replaced. In addition, the finance and administrative manager was off on maternity leave for 7 months, of which 3 months was unpaid, and was not replaced with any temporary resources.

Other personnel costs

The Office had significant savings from budget (\$23k) in other personnel costs as 3 new employees were hired from on-island and therefore the Office did not incur flight and freight costs and other related expenses for recruitment. In addition, there was a compensation award to an ex-employee of \$24k in 2008/9, and no similar expenses were incurred in 2009/10.

**OFFICE OF THE AUDITOR GENERAL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**
(Expressed in Cayman Islands Dollars)

NOTE 8: PERSONNEL COSTS (continued)

Explanation of major variances against the original budget and prior year actual (continued):

Severance Pay

During the year a staff member retired on medical grounds and was entitled to severance pay of \$15k under Schedule 1 section 20(6) of the Personnel Regulations, 2006, which was not budgeted for and no similar payments were made in the 2008/9 year.

NOTE 9: OPERATING EXPENSES

2008/9 Actual \$000		2009/10 Actual \$000	2009/10 Final/Original Budget \$000	2009/10 Actual vs. Original Budget \$000
92	Operating leases	129	131	(2)
73	Professional fees	110	126	(16)
69	Computer hardware maintenance	70	2	68
59	Software licensing fees	59	17	42
28	Utilities	31	23	8
17	Other goods and services	14	27	(13)
10	Janitorial services	10	12	(2)
12	Travel & subsistence	5	19	(14)
1	Training	4	30	(26)
2	Insurance	4	4	-
363	Total Operating Expenses	436	391	45

Operating Leases

The Office occupies leased property on the third floor, Anderson Square, Shedden Road, George Town. The lease was extended for another five years which commenced on 1 July 2009 and ends on 30 June 2014, which resulted in an increase in the rental rate from the previous years, but was close to the budgeted amount. The details of the amounts committed in respect of this lease are included in financial statement Note 11. At the end of this lease if the Office intends to continue in the same premises, the Office is to give 6 months notice to the Landlord and a new lease will be negotiated at that time. An option exists to renegotiate the lease for a further five years at an agreed upon open market rental rate.

In January 2008, the Office entered into a lease agreement with Mini Warehouse Two Limited on a month to month basis at a rental rate of \$520 per month for the secured storage of audit files and administration documents. As at 30 June 2010, the Office ended its lease arrangement with Mini Warehouse Two Limited and is now storing its files in the Office.

Explanation of major variances against the original budget and prior year actual:

Professional Fees

Professional fees were under budget (\$16k) as a result of not hiring external consultants to deal with the backlog of financial statement audits and for any assistance with value-for-money audits. The 2009/10 actual amount was significantly higher than the 2008/09 as a result of outside legal expertise being obtained due to the grievance filed by an ex-employee for wrongful dismissal.

OFFICE OF THE AUDITOR GENERAL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010
(Expressed in Cayman Islands Dollars)

NOTE 9: OPERATING EXPENSES (continued)

Explanation of major variances against the original budget and prior year actual:

Professional Fees (continued)

In addition, the current year amount includes \$30k for legal services being made available to the Office by the Legal Department that was not budgeted for as a result of a government policy not to bill other core government agencies for services provided (see Notes 6 and 14) during the current fiscal year. These legal services were fair valued in accordance with IPSAS 23 for non-exchange transactions, which was consistent with the fee charged in prior years.

Utilities

As a result of a government policy not to bill other core government agencies (see Notes 6 and 14) for the 2009/10 fiscal year, telephone expenses were over budget as the services provided by the Lands & Survey department and the Telecommunications Office for maintenance of the Office's telephone system being connected with the rest of the Government's telephone system were fair valued in accordance with IPSAS 23 for non-exchange transactions.

Software Licensing Fees & Computer Hardware Maintenance

As a result of a government policy not to bill other core government agencies (see Notes 6 and 14) for the 2009/10 fiscal year, software licensing fees and computer hardware maintenance services were significantly over budget by \$110k as the licenses and services provided by the Computer Services department were fair valued in accordance with IPSAS 23 for non-exchange transactions.

Travel & Subsistence

During 2009/10, the Office spent \$5k (30 June 2009: \$12k) on travel and subsistence. This included business related trips in 2009/10 to: Cayman Brac for financial statement and value-for-money audits; London – Maritime Authority financial statement audit; Belize - CAROSAI conference; and to Miami for a value-for-money audit (2008/09: business related trips to: Cayman Brac in regards to financial statement audits, value-for-money audits and helping out after Hurricane Paloma; London – Maritime Authority financial statement audit; Bermuda – Commonwealth Auditor General's Conference; Sweden – INTOSAI Conference; and Puerto Rico – CAROSAI Conference). There was a decrease in the 2009/10 actual expenses from budget as a result of no INTOSAI meetings being attended and the CAROSAI expenditures were not as high as budgeted for.

Training

In 2009/10 the Office hosted a training course for its professional staff and other government accountants in regards to an update on International Standards in Auditing and International Public Sector Accounting Standards and International Financial Reporting Standards. However, the Office was significantly under budget by \$26k as CPA studies were not undertaken by the Auditors in the Office and no other continuing professional development training was paid for by the Office in order to reduce expenditures.

NOTE 10: CAPITAL CHARGE

A capital charge is payable to the Portfolio of Finance and Economics as required by the *Public Management and Finance Law, (2005 Revision)* section 41(5). The Financial Secretary annually sets the capital charge rate which was 0% as no capital charge was budgeted for in 2009/10 (2009: 5.95%). The capital charge is recorded semi-annually, on December 31 and June 30 and is calculated by multiplying the capital charge rate by the net assets/equity amount. For 2009/10, the capital charge is \$0 (2009: \$16k).

OFFICE OF THE AUDITOR GENERAL
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2010
 (Expressed in Cayman Islands Dollars)

NOTE 11: COMMITMENTS

Type	One year or less	One to five years	Over five years	2010 Total	2009 Total
	\$000	\$000	\$000	\$000	\$000
Capital Commitments	-	-	-	-	-
Land and buildings	-	-	-	-	-
Other fixed assets	-	-	-	-	-
Other commitments [list separately if material]	-	-	-	-	-
Total Capital Commitments	-	-	-	-	-
Operating Commitments					
Non-cancellable accommodation leases (see note 9)	123	369	-	492	-
Other non-cancellable leases	-	-	-	-	-
Non-cancellable contracts for the supply of goods and services	-	-	-	-	-
Other operating commitments	-	-	-	-	-
Total Operating Commitments	123	369	-	492	-
Total Commitments	123	369	-	492	-

NOTE 12: CONTINGENT LIABILITIES

Summary of Quantifiable Contingent Liabilities

	2010 \$000	2009 \$000
Legal Proceedings and Disputes		
None	-	-
Total Legal Proceedings and Disputes	-	-
Other Contingent Liabilities		
None	-	-
Total Other Contingent Liabilities	-	-

Summary of Non-Quantifiable Contingent Liabilities

During the year ended 30 June 2009 an ex-employee filed a grievance with the Civil Service Appeals Commission ("CSAC") for wrongful dismissal. CSAC ruled in favour of the Office on 20 January 2010. Subsequently, on 21 April 2010, the ex-employee filed an application for Leave to Appeal for Judicial Review in the Grand Court. No liability has been recorded in these financial statements in respect of this claim as management in consultation with outside legal counsel do not consider the appeal will be successful.

Unknown

Unknown

**OFFICE OF THE AUDITOR GENERAL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**
(Expressed in Cayman Islands Dollars)

NOTE 13: RECONCILIATION OF NET (DEFICIT) TO CASH FLOWS GENERATED FROM OPERATING ACTIVITIES

2008/9 Actual \$000		2009/10 Actual \$000	2009/10 Final/Original Budget \$000	2009/10 Actual vs. Original Budget \$000
(168)	Net (deficit)	(112)	-	(112)
	Non-cash movements			
17	Depreciation	18	20	(2)
(90)	(Decrease)/Increase in payables/accruals	18	11	7
202	Decrease/(increase) in receivables	(67)	(18)	(49)
-	Contributed goods and services	181	-	181
(39)	Net cash flows from operating activities	38	13	25

NOTE 14: RELATED PARTY TRANSACTIONS

As indicated in the approved 2009/10 Annual Budget Statement of Government there was to be no inter-agency charges amongst the various core government entities, except for the audit fees that we billed. This resulted in the Office making an estimate of the fair value of these contributed goods and services received, which resulted in significant variances over the 2009/10 budgeted expenses as discussed in Notes 6 and 9 above under the variance analyses.

Key Management Personnel

There are four personnel at the senior management level. Their total remuneration includes: regular salary, pension contributions, health insurance contributions, acting allowance, motor car upkeep, leave passages and shipping of goods. Total remuneration for senior management in 2009/10 was \$532k (2008/09: \$501k). There were no loans made to key management personnel or their close family members in 2009/10 (2008/09: \$0).

NOTE 15: FINANCIAL RISK MANAGEMENT

The Office is exposed to a variety of financial risks including credit risk and liquidity risk. The Office's risk management policies are designed to identify and manage these risks, to set appropriate risk limits and controls, and to monitor the risks and adhere to limits by means of up to date and reliable information systems. These risks are managed within the parameters established by the Financial Regulations (2008 Revision).

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Office. Financial assets which potentially expose the Office to credit risk comprise cash and cash equivalents and accounts receivable.

The Office is exposed to potential loss that would be incurred if the counterparty to the bank balances fail to discharge its obligation to repay. All bank balances are with one financial institution located in the Cayman Islands which management considers to be financially secure and well managed.

**OFFICE OF THE AUDITOR GENERAL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010
(Expressed in Cayman Islands Dollars)**

NOTE 15: FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

The Office is also exposed to a significant concentration of credit risk in relation to accounts receivables, all of which are due from other Government entities. No credit limits have been established. As at 30 June 2010 and 2009, no provision for doubtful debts has been made as none of these assets are impaired and management considers these debts to be recoverable in full. Notwithstanding the concentration risk in relation to accounts receivables, management does not consider the Office to be exposed to significant credit risk as all of the counterparties are Government entities in which the Office has had no past experience of any significant default or loss.

The carrying amount of financial assets recorded in the financial statements represents the Office's maximum exposure to credit risk. No collateral is required from debtors.

Liquidity Risk

Liquidity risk is the risk that the Office is unable to meet its payment obligations associated with its financial liabilities when they are due.

The ability of the Office to meet its debts and obligations is dependent upon its ability to collect the debts outstanding to the Office in a timely basis. Management manages liquidity risk through monitoring cash flows from debtors, maximizing days credit taken from suppliers, and if the circumstances required it to obtain funding from Government to temporarily fund any shortfalls the Office would have with its own cash flows. As at 30 June 2010 and 2009, all of the financial liabilities were due within three months of the year end dates.

NOTE 16: FINANCIAL INSTRUMENTS – FAIR VALUES

As at 30 June 2010 and 2009, the carrying value of cash and cash equivalents, accounts receivable, work in progress, accounts payable and employee entitlements approximate their fair values due to their relative short-term maturities.

Fair values estimates are made at a specific point in time, based on market conditions and the information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions, economic conditions and other factors could cause significant changes in fair value estimates.

NOTE 17: SUBSEQUENT EVENTS

On 1 July 2010 employee salaries were reduced by 3.2% as part of Government's cost saving measures for the 2010/11 budget year.

The new Auditor General, Alastair Swarbrick took office on 12 July 2010.