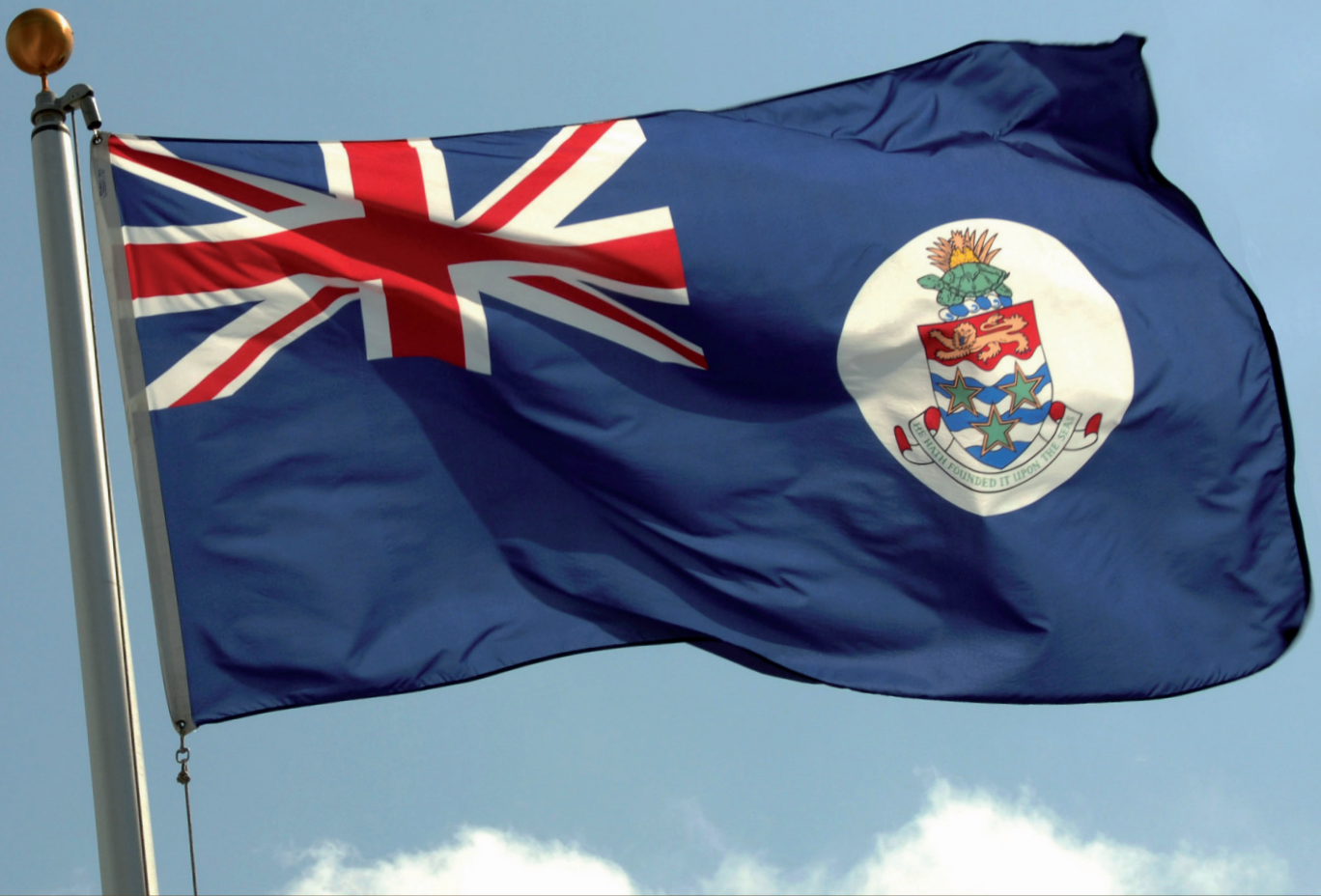



# Annual Report

30 June 2012





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

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## FOREWORD BY THE AUDITOR GENERAL

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I am delighted to present the Annual Report of the Office of the Auditor General (“Office” or “OAG”) for the Cayman Islands for the year ending 30 June 2012. This annual report completes the accountability cycle that began when the Office published its 2011/12 Annual Budget Statement. Both documents help legislators and the public assess the Office’s performance. A further objective of this report is to communicate who we are and what we do, and to encourage the reader to understand our role and our desire to make a difference in the lives of the people of the Cayman Islands by ensuring public funds are managed in a transparent and accountable way.

According to Francis Fukuyama, the origins of political order are constructed on three pillars: the presence of effective state institutions; the operation of the rule of law to constrain political power and corruption; and, the accountability of government which compels the state to use its power in accordance with public, transparent rules.

In these times where public services across the world continue to face significant challenges and pressures, the need for good governance and effective accountability is essential in maintaining or building public trust in Government. Inherent in this are the fiduciary responsibilities of Government, as the agents of the Government must be trusted to carry out their duties efficiently, effectively and without taking advantage of their privileged position.



A number of factors influence public trust in Government such as the commitment by the public service to act in the public interest via rules and codes of conduct which are transparent and enforced, and the commitment by elected representatives and public officials to good stewardship.

The existence of independent and effective public sector audit is also an important factor in helping to build public trust in Government and the services it provides. Carrying out our work impartially and objectively, acting in the public interest, and reporting transparently provides assurance to the public that there is a trusted and effective check and balance reporting on the performance of Government and public services. Therefore the presence of independent public sector audit promotes public trust in Government.

Our Vision statement ***“OUR INDEPENDENT WORK PROMOTES GOOD GOVERNANCE, TRANSPARENCY AND ACCOUNTABILITY IN THE USE OF PUBLIC FUNDS”*** clearly demonstrates our support for enabling public trust in government and public services.

The OAG promotes and sustains its role as a trusted and effective independent public sector auditor of Government through applying the following core public sector audit principles:

- independence from the bodies being audited;
- wider scope audit, including the legality and probity of transactions;
- conduct performance audits to provide independent analysis and findings on whether public entities are providing value for money; and
- making the results of our audits and reviews, without restriction, available to the public and to democratically elected representatives.

As we move towards our thirtieth year of operation we will continue to deliver our work in line with these principles and support public trust in government. We will seek to achieve this by continuing to deliver quality products and services to the Legislative Assembly and audited bodies, and delivering against the objective as set out in our Strategic Plan.

The core activities of the OAG during 2012/13 will continue to be the audit of the financial statements, the submission of performance audit reports to the Legislative Assembly, and continued support of the activities of Hazard Management Cayman Islands.

As an Office we believe that we should lead by example and we will continue to challenge ourselves, looking for ways to continuously improve how we carry out our work, and manage and operate the Office.

The Office’s success depends on the efforts of many people. For example, legislators support the work of the Office by providing the funds needed to audit the Government. Adequate funding helps the Office meet legislators’ and the public’s expectations. Also, the legislators’ review of the reports of the Office helps ensure that our work makes a difference.

Government officials and appointed auditors also contribute to the Office’s success. Without the co-operation and assistance of Government officials we would be unable to report on the quality of their management to the Legislative Assembly.

Lastly, our dedicated team contributes their skills and hard work to fulfilling the mandate of our Office by providing assurance and advice to the Legislative Assembly and the Government. The reports issued to the Legislative Assembly are the result of their hard work.

I trust you will find this Annual Report informative and that it will provide a good basis for holding my Office accountable for the resources it was given.



Alastair Swarbrick, MA(Hons), CPFA  
Auditor General  
16 October 2012

# ABOUT THE OAG

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## PUBLIC SECTOR AUDIT

Those responsible for public business and handling public money must be held accountable, in accordance with the law and proper standards, to those who use and pay for the services provided. Public resources should be safeguarded, properly accounted for and used economically, efficiently and effectively.

Ministers, boards, chief officers, managers and public officials have the primary responsibility for ensuring that public business is conducted in accordance with the law and proper standards, and that public money is handled with probity and spent appropriately. Public bodies and those responsible for conducting their affairs must discharge this accountability by establishing and maintaining proper governance arrangements and effective stewardship of the resources at their disposal.

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing an assessment of matters such as the legality, propriety, performance and the economic, efficient and effective use of public money.

Public sector audit is an important link in the chain of accountability and holding to account. It strengthens accountability, both upwards to

## The Cayman Islands Constitution

The Constitution requires that there shall be an Auditor General who shall have *“The power and responsibility to audit the public accounts of the Cayman Islands and the accounts and financial dealings of all authorities, offices and departments of Government and of all courts, and power to undertake value for money investigations in respect of the activities of such authorities, offices and departments”*.

It further states that *“In the exercise of his or her functions, the Auditor General (and any person acting on his or her behalf in the exercise of those functions) shall not be subject to the direction or control of any other person or authority, save that the Auditor General is answerable to the Public Accounts Committee of the Legislative Assembly and must attend upon the Committee at its request.”*

The powers and duties of the Auditor General are further set out in the *Public Management and Finance (“the PMFL”)*.

the elected members who provide resources, and outwards to citizens and users of public services. Public sector audit adds value, not only by reviewing and reporting on what happened, but also by looking forward, identifying where improvements can be made, and promoting good practice. In this way public sector audit contributes to improved standards of governance, better management and decision

making, and more effective use of public money.

One of the most important roles of the Legislative Assembly is to hold the Government to account for its use of public money. To do this effectively, members need objective and fact-based information about how well the Government collects and spends public funds.

The need for a third party to provide information and attest to the credibility of the financial reporting, performance results, compliance, and other measures arises from several factors inherent in the relationship between the principal (the Legislative Assembly) and its agent (the Government):

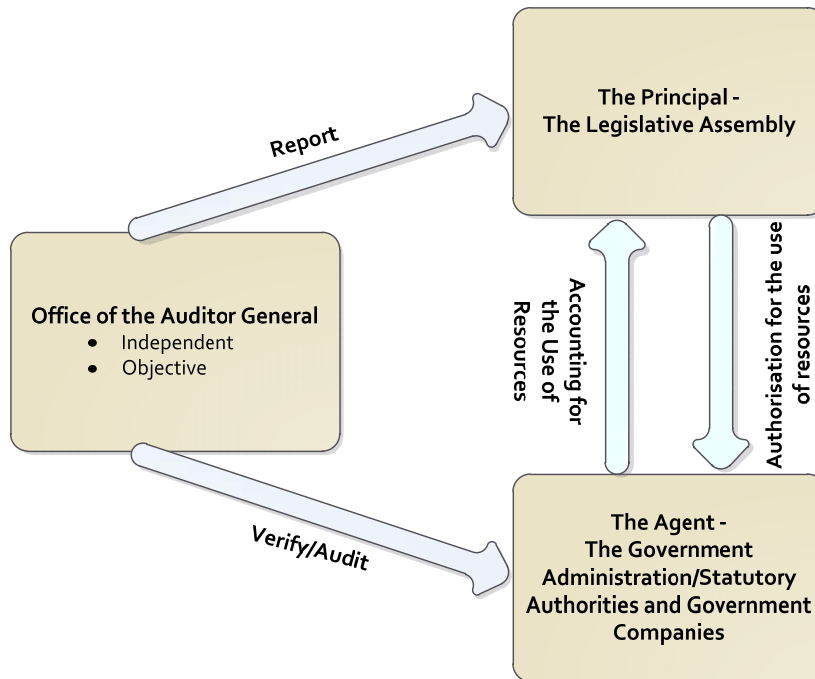
- conflicts of interest: Agents may use their resources and authority to benefit their

own interests, rather than the principal's interests.

- Remoteness: Operations may be physically removed from the principal's direct oversight.
- Complexity: The principal may not possess the technical expertise needed to oversee the activity.
- Consequence of error: Errors may be costly when agents are stewards of large amounts of resources and are responsible for programs affecting citizens' lives and health.

The Office of the Auditor General is an independent and reliable source of such information. The Exhibit below shows the relationships between the Legislative Assembly, the Government and the OAG.

### Relationships between the Legislative Assembly, the Government and the OAG





## WHO WE ARE AND WHAT WE DO

The Office of the Auditor General has been called the independent “**Watchdog of Government Spending**” working on behalf of the Legislative Assembly and the wider public. We carry out this role by undertaking:

- Financial statement audits of the Government, including each ministry, portfolio, statutory authority and government company.
- Performance and compliance audits which promote the efficient, effective and economic use of resources across ministries, portfolios, statutory authorities and government companies.
- Support and assistance to the Public Accounts Committee (PAC) of the Legislative Assembly.

We also provide support services to Hazard Management Cayman Islands. The Auditor General supports other government activities such as being a member of the Anti-Corruption Commission, a Director of the Auditor Oversight Authority and providing advice to operational committees.

Audit is a fundamental element of accountability that supports the role of Government to effectively report on its use of public money. Our work focuses on how well the civil and public service implements government policy. We examine how resources have been used, including whether they are in line with relevant legal authorities.

We report our findings without fear or favour. Our reports are issued to the Legislative

Assembly, Government entities, other stakeholders and the public, as appropriate.

The freedom to determine the content, timing and publication of reports is a fundamental principle of an independent audit office. It promotes transparency in the use of government resources and enables our objective findings to be made available without any political interference or manipulation. In line with international standards for public sector audit offices we fulfill our responsibilities by informing the public of the results of our work through our website and the media.

## OUR STRATEGY

Our 2011/12 Budget Submission to the Legislative Assembly set out our strategic ownership goals. In 2011 we published our strategic plan for the period 2011 to 2013, which sets out four over-arching strategic objectives, which are in line with the Strategic Ownership Goals. The four objectives are:

- Well managed public services
- Fostering good relations
- Independence of the OAG
- Leading by example.

Our strategic plan provides the platform for driving the work of the Office forward. It also enables us to monitor our progress and performance, and provides a basis for stakeholders to monitor our performance in future years.

### **Strategic Plan Objectives:**

**Well managed public services:** As the watchdog of government spending our primary aim is to hold Government to account for how it manages and spends the scarce resources at its disposal. In doing this we balance this work with the need to support Government to improve so that the programs and services it is providing to stakeholders continuously improve.

**Fostering good relations:** Through our work we provide our stakeholders with assurance about Government expenditure. It is important that our work has influence and impact, so that it supports Government and its various entities to take on board our findings and recommendations to make lasting improvements. To achieve this it is important we are seen as a respected professional organisation, delivering a consistent quality of service, built on strong relationships, active partnerships and our traditional products, whilst looking at flexible and innovative ways to achieve buy-in and implementation of our recommendations by audited entities.

**Independence of the OAG:** The Auditor General, and therefore by inference the Office of the Auditor General, is a statutorily independent watchdog of government spending and has freedom of action in the work that it carries out. However there are perceptions both within and outside the Government that we are part of Government. This is reinforced by some of the provisions in the PMFL and application of the *Public Service Management Law* (“PSML”), which could enable Government to constrain the financial and operational independence of the OAG through the withholding of resources. There is a need to enhance the independence of the OAG, to ensure that its work as an independent watchdog cannot be compromised by Government, that we have the resources to deliver our mandate and to change perceptions about its independence.

**Leading by example:** As the public watchdog for reporting on how Government uses scarce public resources appropriately, efficiently and effectively, we are obliged to lead by example. Therefore we must ensure that how we are organized, governed and managed is open and transparent, accountable, complies with the principles of good governance, and promotes the standards expected of those involved in public life.

## OUR WORK

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**“...the need for financial accountability has existed ever since it became necessary for one individual to entrust the care of his possessions or business to another.”**

*Committee to review the Functioning of Financial Institutions (“Wilson Committee”) 1980*

Our primary aim is to hold the Government to account for how it manages and spends the scarce resources at its disposal. In doing this we balance this work with the need to support Government to progress so that the programs and services it provides to stakeholders continuously improve.

### FINANCIAL AUDIT

Our financial audit work helps the Legislative Assembly hold organisations to account for over \$700 million of expenditures and over \$1.3 billion in assets and liabilities. Our audit provides independent assurance to the Legislative Assembly on how public money has been spent, how revenue has been generated, that assets have been safeguarded and liabilities are fully recognised.

The findings and recommendations from our financial audits should help focus attention and stimulate improvement in governance and control, enhancing financial management and the quality of information that government entities use to make decisions.

During the year, we carried out financial audits of 38 individual entities (see Appendix 1) and on the consolidated financial statements of Government. During this period, there was still a continuing backlog of audited Annual Reports and Accounts to be tabled in the Legislative Assembly. This backlog arose from deficiencies in the presentation of information for audit, which has undermined transparency and accountability and raised significant concerns about effective financial management.

## ENTITY FINANCIAL STATEMENTS

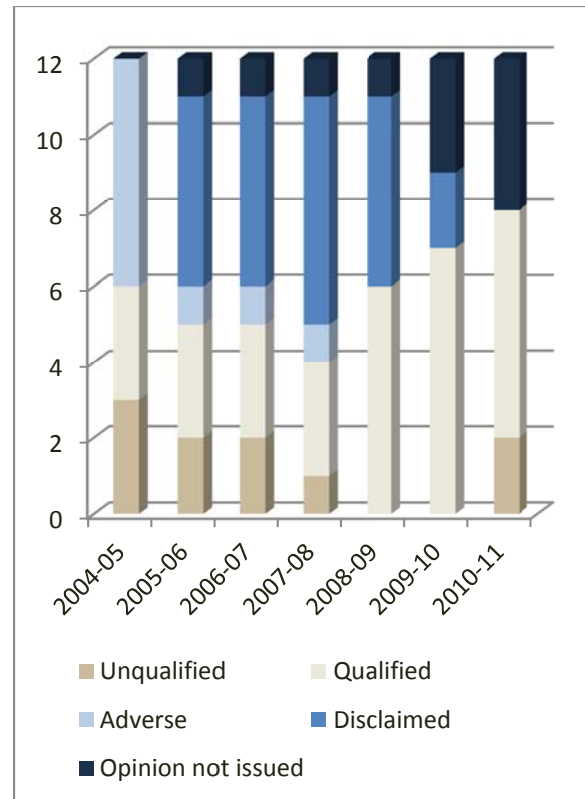
In late June 2011 the Deputy Governor initiated a project to improve financial reporting across government, with the initial target of preparing and submitting financial statements for all entities for 2010/11 by the statutory deadline of 31 August 2011, which was achieved.

During the year we worked hard with Government to audit the 2010/11 financial statement and clear the remaining backlog financial statements. We issued in total 55 (2010/11: 73) financial statement audit opinions on individual entities during the year. Of these 22 were for the most recent year (2010/11: 12) which while still far from ideal is a significant improvement on the position in previous years.

As at 30 June 2012, 233 audit opinions had been issued on a total of 265 entity financial statements between 2004/05 and 2010/11 (the period since the introduction of the PMFL). A further seven financial statements had been issued without an audit as result of amendments to the PMFL in 2011 exempting them from audit. There are 26 audits still outstanding as at 30 June 2012, which is a significant decrease on the position when the current Auditor General took up post in July 2010 when there were 89 outstanding audits.

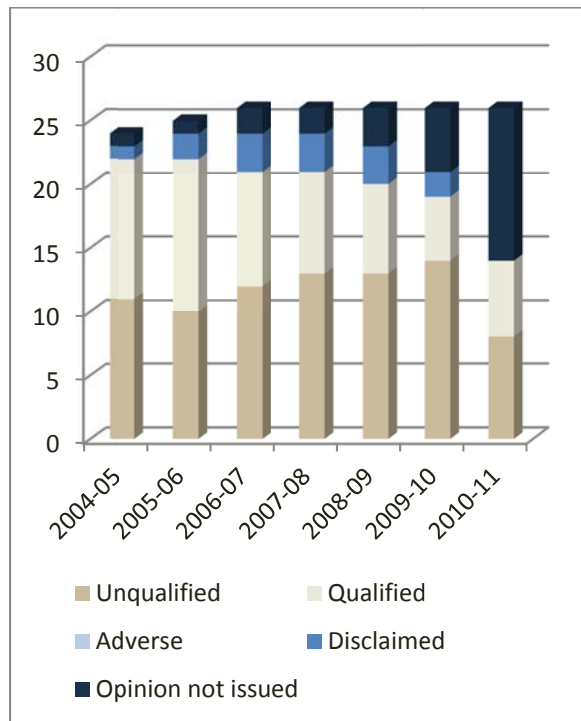
This has been achieved through a combination of pragmatic decision making, hard work and effective co-operation with Government officials. The following exhibits and analysis provide more detail on the improvements in timeliness and quality of government financial reporting.

Exhibit 1: Ministries and Portfolios audit opinions



Whilst we are seeing improvements in timeliness, we are also seeing improvements in quality for the Ministry and Portfolio financial statements. While there is still a significant way to go to achieve a position where most financial statements receive unqualified audit opinions, for the last two financial years we are seeing a decline in the number of adverse or disclaimers of opinions, which is indicative of an improvement in quality and reliability.

**Exhibit 2: Statutory Authority and Government Company audit opinions**



In general the position for statutory authorities and government companies has over the period from 2004/05 been significantly better than the ministries and portfolios, with very few entities receiving adverse or disclaimers of opinions. There has been a general trend to more unqualified audit opinions and a number of the qualified opinions are relatively minor. There are a few outliers in terms of both quality and timeliness which continue to have difficulties, but these tend to be small organisations.

For more detailed information see our Financial and Performance Reporting reports on our website: <http://www.auditorgeneral.gov.ky>.

**ENTIRE PUBLIC SECTOR (GOVERNMENT CONSOLIDATED FINANCIAL STATEMENTS)**

With respect to the consolidated statements of the Government we received a submission for 2010/11 in line with the statutory timetable of 31 October 2011. These statements include all the executive transactions of government which are not included in any of the individual entity financial statements. This includes the coercive revenues, transfer payments, executive expenses and loan transactions.

We have been working with Government to audit these statements and as at 30 June 2012 we are near to being able to determine whether we form an opinion on them. With respect to the period of 2004/05 to 2009/10, the OAG had only received a submission for 2004/05 which was not complete.

**COMPLIANCE AUDITS**

As a result of the poor quality of the ministry and portfolio financial statements, in particular for the period 2004/05 to 2007/08, and as a result of an amendment to the PMFL we are currently planning a number of compliance audits across a range of programs and areas of expenditure. The aim of this is to provide some assurance that the funds were used for the purposes they were intended for during these years. We plan to report this work in 2012/13.

### **Martin Ruben – Audit Principal**

Martin has been with the Office of the Auditor General since February 2009 and has responsibility for the performance audit practice and media relations. He is a Certified General Accountant (CGA) and has over 33 years' experience in public sector management and auditing.

When asked to say what he liked most about his work here, he said: *"I enjoy working in the Office of the Auditor General of the Cayman Islands and, in particular, I enjoy the great team we have assembled and how everyone strives for a high degree of professionalism in their work and making a difference with their clients."*

Prior to joining the Office of the Auditor General of the Cayman Islands, Martin was a performance audit director in the Office of the Auditor General of Canada. He was involved in many significant initiatives over the years to improve public sector governance and accountability including promoting accrual based financial reporting and performance reporting in the Canadian government. Martin also served in the training department and provided assurance reviews of the audits conducted by the Office. He has also served his profession by being involved on boards and committees as well as serving on various standard setting bodies.

In addition to his contributions to his profession and public sector management, Martin has made it part of his life to be involved in his community; whether as a board member of a thespian group, the president of a museum and, most recently, as a Rotarian here in Grand Cayman. He is also a proud graduate of the Leadership Cayman class of 2011.

Martin enjoys running, golf and fishing when he isn't reading up on the latest accounting and auditing information.

### **INFORMATION TECHNOLOGY AUDIT**

Towards the end of the fiscal year we engaged Deloitte and Touche to provide information technology audit services. The main focus of this work was to provide us with assurance regarding the key systems that underpin the financial transactions in the governments financial statements. This included the main accounting system and its related modules, and the Immigration, Customs and General Registry systems. A majority of this work was completed by the year end and we expect to report the results of this work during 2012/13.

### **IMPACT OF OUR WORK**

The results of our work are having an impact as the timelines and quality of financial statements is improving, with the backlog significantly reducing and the current year being completed quicker. However this is all relative to the situation that had been reached in terms of financial reporting, and there is still some way to go before financial accountability is fully restored.

We will continue working with the Government to reduce the percentage of modified audit opinions and improve the timeliness of financial reporting in the future. These will be good indicators about the improvements in Government's financial management and reporting, and the impact of our work.

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## AUDITING STANDARDS AND ETHICS

We conduct our financial audit work in accordance with International Standards on Auditing, also paying regard to International Standards of Supreme Audit Institutions (ISSAIs). It is delivered by staff who are qualified members of professional accountancy bodies or in training to become so. At this time eight audits are conducted by local audit firms on behalf of the Auditor General.

The independence of public audit ensures its effectiveness. In this respect we have a Code of Conduct which has adopted the ethical standards for accountants and auditors prescribed by the International Federation of Accountants. The Auditor General performs the role of the ethics partner and provides advice on applying the standards.

## PERFORMANCE AUDIT

A fundamental part of our remit is to conduct audits on whether government carries out its business efficiently, effectively and economically. During the year we continued to deliver high quality performance audits. We issued 8 reports (2009/10: 2 reports issued) on topics ranging from government procurement to the management of overseas medical services. Details of the reports issued can be found at Appendix 2.

We also began work on two other audits which we plan to report on in late 2012. The first of these is a review of Governance across the public sector in the Cayman Islands, including the statutory authorities and government companies. The second is a review of executive transactions and transfer payments which we

are conducting in conjunction with our audit of the consolidated financial statements and the compliance audits referred to previously.

The results of our performance audits, whilst highlighting areas of good practice, generally indicate that there is room for significant improvement in managing the operations of government, and ensuring that value for money is achieved.

In September 2011 we published our performance audit programme for 2011 to 2013. This provides a challenging plan of the performance audits we plan to undertake up until mid 2013, with details of other areas we may audit further into the future. This was based on an initial risk assessment carried by the OAG, considering various factors such as the significance or importance to stakeholders, and after wide consultation with stakeholders about the issues and risks faced by government.

Since its publication there have been some changes to priorities and the programme has also been impacted by delays in the report clearance process. Also we are faced with significant ongoing challenges to effectively resource our performance audit practice. However, broadly speaking we are carrying out the audits we planned to, but slightly later than initially planned.

## Performance Audit Case Study- Management of Overseas Medical Services

This performance audit reviewed the Government's policies and management practices related to the costs of providing overseas medical services for residents of the Cayman Islands. Specifically, the audit reported on how the Government manages overseas medical services provided to individuals by the Cayman Islands National Insurance Company Ltd. (CINICO). This audit commenced in February 2011 and reported to the Legislative Assembly in May 2012.

The audit reviewed the policies, procedures and transactions of the government from May 2009 through April 2011. It covered the activities and responsibilities in all organizations involved in providing overseas medical health care for the Government including the Health Services Authority, CINICO, and the Ministry of Health, Youth, Sports and Culture. In reviewing the management practices in these entities, the criteria used included, for example, determining whether the Government had clearly communicated to CINICO and others its responsibility to insure and administer services for the provision of overseas health care and that CINICO had effectively managed the risks associated with the delivery of overseas medical treatment.

The audit concluded that overseas health management services, that cost the Government almost \$30 million in the fiscal year 2010/11, were not being managed effectively and that the costs associated with the activities were not controlled. For example, the audit found serious weaknesses in the board oversight and a lack of management procedures during the period audited. Therefore, CINICO had not carried out one of its main responsibilities; i.e. to manage public funds with due regard for value-for-money.

The report provided to Members of the Legislative Assembly included eighteen recommendations for the Government to consider and, if implemented, would lead to a more cost effective manner for the delivery of overseas health management services. In its response to the report and its recommendations, CINICO management indicated that it had already started to address some of the concerns raised and committed to addressing the recommendation and improving its operations.



## **SUPPORT AND ASSISTANCE TO THE PAC AND THE LEGISLATIVE ASSEMBLY**

Critical to our success is the service and support we offer the Public Accounts Committee and Legislative Assembly more broadly so that the outcomes which are jointly achieved from this unique relationship are enhanced.

In March of 2011 the Chairman of PAC resigned as a result of difficulties in getting a quorum of the members to attend. The new chairman was appointed in August 2011. During 2011/12 the PAC met a number of times with the Office in attendance, and held two public meetings to discuss and gather further evidence on our two reports on procurement.

It is our intention to work with the PAC to identify how we can further develop and enhance our working relationship to enhance the outcomes of our work.

## **SUPPORT SERVICES TO HAZARD MANAGEMENT CAYMAN ISLANDS**

Our Office continues to work and support Hazard Management Cayman Islands by participating within the National Emergencies Operations Centre and keeping up our training in the event of a disaster.

The Office provides personnel to help with the Support Services Cluster group of the National Emergencies Operations Centre. Audit Principal, Martin Ruben is the Support Services cluster manager with oversight of the following sub-committees: Joint Communication Services, Continuity of Operations, Resource Support, and Essential Relief Services/International Aid Management. The

sub-committees are made up of personnel with designated responsibilities from various Ministries, Portfolios, Government agencies and the private and voluntary sectors. The Deputy Auditor General, Garnet Harrison is Deputy Chairman of the Support Services cluster group and Chairman of the Essential Relief Services/International Aid Management.

Mr. Ruben and Mr. Harrison participated in the annual hurricane simulation exercise held on May 9<sup>th</sup> and 10<sup>th</sup>.

In addition, many staff within the OAG are trained to use the Logistics Support System (LSS) in the event of a disaster so that when international aid is donated to the Cayman Islands Government it can be tracked and reported back to the donors on how it was used.

## **COMMUNICATION AND ENGAGEMENT WITH STAKEHOLDERS**

It is important that we engage and communicate effectively with our clients about our work and activities, and are proactive in providing professional advice to Government without compromising our independence or duties to the Legislative Assembly. These activities help overcome resistance and remove barriers to improvement.

During 2011/12 the Auditor General and the OAG team met and consulted with a large number of stakeholders. We provided advice on many issues to various parts of government around areas including financial accounting, procurement, governance and program management. Specific activities undertaken included:

- Meeting with the Chief Officers and Chief Financial Officers from across government regarding their financial statements
- Actively participating and supporting the Deputy Governor’s initiative to improve the financial reporting of Government
- Issued our strategic and performance audit plans following a consultative process with key stakeholders
- Auditor General presented a paper at the UCCI conference
- Held an open house event and implemented our re-developed website
- Acting as an advisor to the Deputy Governor’s working group on procurement
- Maintaining strong working relationships with key partners such as the Commission for Standards in Public Life and private sector audit firms.

## REGIONAL AND INTERNATIONAL WORK

The OAG is a member of CAROSAI (Caribbean Organisation of Supreme Audit Institutions) which works to support and enhance the role of public audit offices throughout the region. CAROSAI’s mission is “... to serve its members in promoting best auditing practices and good governance through collaboration and mutual support”.

CAROSAI relies significantly on the contribution of its membership to support its activities. The OAG is a proactive member looking to support the development of public sector audit in the region, while learning from other audit agencies to enhance our skills and knowledge. The Auditor General is the chair of the CAROSAI Regional Institutional Strengthening

Committee. During the year the OAG supported and took part in a number of CAROSAI activities:

- The Auditor General acted as the Subject Matter Expert for the development and implementation of a risk based financial audit training course jointly run by CAROSAI and IDI (INTOSAI Development Initiative).
- A CAROSAI regional meeting was held in January 2012 in St. Johns, Antigua, which the Auditor General attended. The meeting focused on a CAROSAI project funded by the World Bank to improve fiduciary oversight in the Caribbean through the strengthening of independent public sector audit offices. This meeting gave all members an opportunity to shape the outcomes and discuss the way forward.
- CAROSAI held its strategic planning meeting to develop its next three year strategic plan in Kingston, Jamaica, in May 2012. The Auditor General attended this important meeting which was sponsored by the Inter-American Development Bank and the World Bank. This meeting helped frame an initial strategic plan for CAROSAI building on the outcomes from the World Bank project. The Auditor General has subsequently been closely involved in further development of the strategic plan.
- The Auditor General attended an INTOSAI (International Organisation of Supreme Audit Institutions) capacity building committee meeting in Tokyo on behalf of CAROSAI in June 2012, to discuss efforts internationally to strengthen and build the capacity of public audit offices.

In June 2012 we welcomed colleagues from OAG Bermuda for two days. They were visiting to find out how we carried out our work with a particular focus on performance auditing. Due to our similarities OAG Bermuda and OAG Cayman Islands are striving to build a mutually beneficial relationship.

Further information on the Anti-Corruption Commission can be found on their website: <http://www.anticorruptioncommission.ky>

In early 2012 the Auditor General was appointed as a Director of the Auditors Oversight Authority as a result of the passing of the Auditor Oversight Law. The Authority is charged with the regulation of auditors of market traded entities (listed on European exchanges). The Authority is still in process of putting in place the arrangements to enable it to effectively carry out its remit.

The Auditor General also acted in an advisory capacity to the working group established by the Deputy Governor in April 2012 to make recommendations on a new framework for public procurement.



The Auditor General meets with Mr. Shigematsu the President of the Board of Audit of Japan

## OTHER ACTIVITIES

The Auditor General, as required under the Anti-Corruption Law, is a member of the Anti-Corruption Commission. The work of the OAG provides some clear areas where it can support the work of the Commission in its investigations and the OAG continued to work collaboratively with the Commission throughout the year.

# OUR PEOPLE

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## The Senior Management Team



**Garnet Harrison,  
Deputy Auditor  
General, CA**

Responsible for managing the OAG's corporate affairs and audits contracted out to the audit firms



**Patrick Smith, Audit  
Principal, CPA, CFE**

Responsible for managing our in-house financial audit practice



**Martin Ruben, Audit  
Principal, CGA**

Responsible for managing our performance audit practice and communications

The Auditor General is responsible and accountable for the overall management of the OAG, and he is supported by a senior management team who oversee the day to day operations of the OAG, with each member taking responsibility for a specific area.

The senior management team was supported during the year by a team of 13 auditors and 2 administrative staff. Our auditors are all fully qualified members of professional accountancy bodies, with the exception of one who is working towards their professional designation.

Staff performance is managed through our performance management system through which staff have clear objectives against which their performance is reviewed. This process also helps to identify areas for development or training needs to ensure continual professional development. All staff are provided with suitable training opportunities to ensure continual professional development, including an annual technical update on developments in auditing and accounting.

The ethics and independence of the OAG staff is something that we take very seriously. All members of staff are required annually to confirm compliance with our Code of Conduct and register conflicts of interest. The conflict of interests register is available for public inspection at our Office and our senior management teams' declarations are available on our website.

# OUR ORGANISATION

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## LEADING BY EXAMPLE

As the public watchdog for reporting on how Government uses scarce public resources appropriately, efficiently and effectively, it is beholden upon us to lead by example. We must ensure that how we are organized, governed and managed is open and transparent, accountable, complies with the principles of good governance, and promotes the standards expected of those involved in public life.

During the year we continued the work commenced in 2010/11, leading to a significant number of developments in how we go about the business of the OAG. The most significant developments were the publication of our strategic and performance audit plans which support the vision and core values of the OAG,

### OAG Three Core Values

**Independence** – We work independently from Government

**Professionalism** – We carry out our work with integrity and respect, competently and in the public interest.

**Accountability** – We are accountable to the Legislative Assembly and the people of the Cayman Islands for what we do.

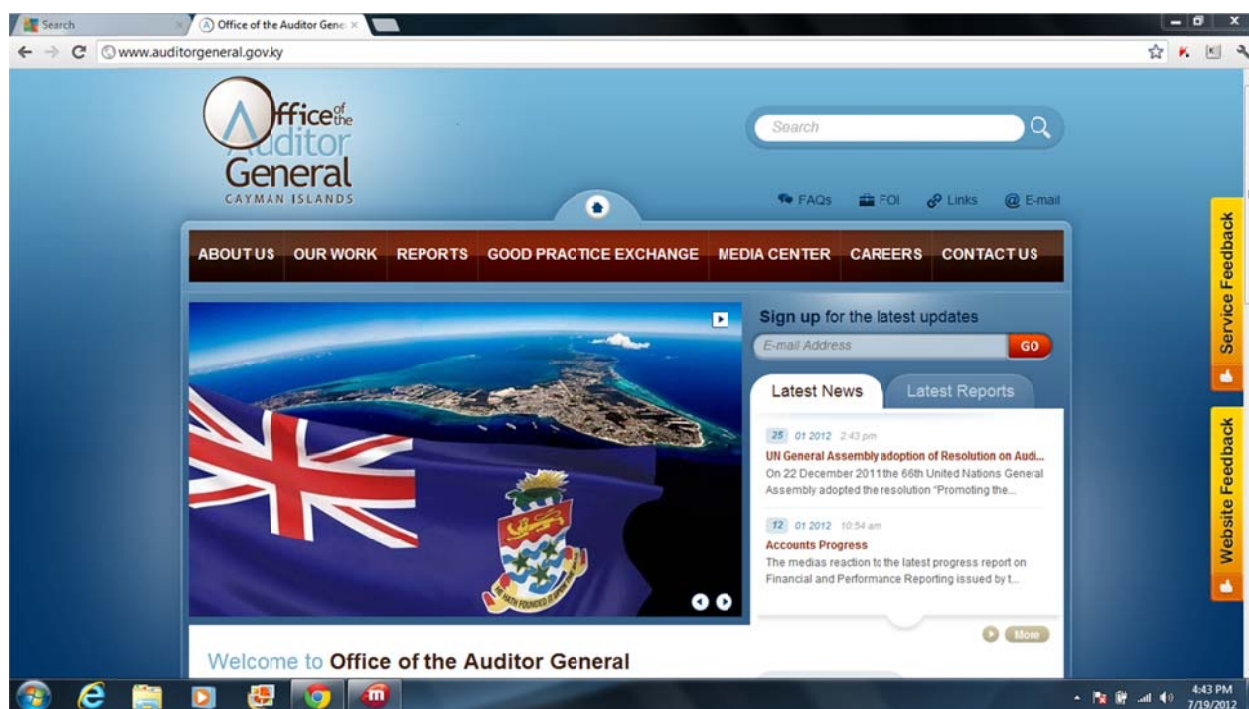
provide a clear direction for how we want to take the OAG forward and the work we plan to undertake. They also provide a clear basis against which our performance can be monitored.

Another significant development was the re-launch of our website providing a significant amount of information about the OAG and its work. Linked to this we began proactively disclosing through our website information about the operation of the OAG including the remuneration, interests and travel expenses of senior staff, significant contracts and payments, and hospitality given and received.

The significant work undertaken during the fiscal year included:

- the development of a risk management framework and policy, including a risk register to help manage the business of the OAG
- an on-going review of how we are organized and structured to ensure that we are efficient and effective in the delivery of our work (although this work has been constrained by factors outside the control of the OAG)
- commenced development of a performance management framework in support of our strategic plan against which the OAG's performance can be measured. The measures and indicators we plan to commence using or developing during 2012/13 are at Appendix 3.

## The New OAG website



### INDEPENDENCE OF THE OAG

On 22 December 2011 the United Nations General Assembly passed a resolution *“Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions”*. Through this the General Assembly expressly recognized that:

- Public audit offices can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence; and

- The important role of public audit offices in promoting the efficiency, accountability, effectiveness and transparency of public administration, which is conducive to the achievement of national development objectives and priorities as well as the internationally agreed development goals, including the Millennium Development Goals.

The resolution was based on the work of INTOSAI to strengthen the independence of audit offices, and recognized INTOSAI's Mexico and Lima declarations on the matter. The resolution encouraged member states to:

- apply, consistent with their national institutional structures, the principles set out in those Declarations, and
- continue and to intensify their cooperation with INTOSAI, including in capacity-building, in order to promote good governance by ensuring efficiency, accountability, effectiveness and transparency through strengthened public audit offices.

During the year we experienced further constraints on our financial and operational independence. We also faced the Government directly imposing our budgets without any strategic consideration of our needs and despite them not having the legislative responsibility for it.

These issues directly impact our operational independence and significantly increase the challenges of effectively delivering the mandate of the OAG at a time when the demands on resources are increasing.

Despite these challenges we continue to work to move forward our agenda of strengthening the independence of the OAG. This work has been based on our analysis against the principles set out by INTOSAI and supported by the UN. During the year we continued engaging key stakeholders and applying our policies and procedures around conduct, ethics and independence to reinforce our independence. We also have developed draft Auditor General Legislation based on good practice and model

legislation that has been developed for public audit offices in the Caribbean.

Looking forward we will continue to:

- Work with the PAC and Government to influence the introduction of new Auditor General legislation
- Communicate and educate stakeholders on the role, functions and independence of the OAG through various mechanisms, including presentations, publications and our website
- Work with Government to resolve financial and operational constraints that could affect our independence.

## **CONTINUOUS DEVELOPMENT OF OUR PROFESSIONAL PRACTICE**

We are required to carry out our work in compliance with International Standards on Auditing (ISAs). As a public sector audit office we also pay regard to the International Standards of Supreme Audit Institutions (ISSAIs) which expand on the ISAs for application in the audit of government entities. Auditing practices, techniques, methodologies and supporting tools also continue to develop. Accounting standards against which we carry out our financial audit work continue to develop and evolve.

Over the past fiscal year we continued to develop our financial and performance audit practices to ensure that they are risk based and focused on the areas that matter. This included the implementation and roll out of a new version of our audit documentation software.

We continued to implement our learning and development plan, within our budgetary constraints, to ensure:

- we meet our professional development obligations,
- provide our team with appropriate skills and tools, and
- help support effective succession planning.

We began implementation of our new quality assurance framework. However due to budgetary constraints we have had to delay the implementation of certain elements of this. During the coming year we will strive to move this forward as its full implementation is required to meet our obligations under professional standards and also provide the Auditor General with assurance that our work meets professional standards and achieves our business objectives. However this will remain challenging without additional resources.

#### **DEVELOPING THE CAPACITY OF THE OAG**

With respect to the resources and skills necessary within the OAG, it is essential that we have sufficient and appropriately skilled people to effectively deliver our mandate. Outside of the core financial audit skills, that are well developed within the OAG, key requirements include performance audit and information technology audit skills.

During the year, we looked at developing capacity from two perspectives. Firstly, we looked to develop our staff to ensure that they maintain and enhance their skills, and also so the OAG meets its professional obligations around staff development. Secondly, we continued to review the overall capacity needs of the OAG to enable the effective delivery of our mandate.

#### **Winston Sobers – Audit Project Leader**

Winston joined the OAG in October 2009 and is responsible for the audits of a portfolio of government clients, including ministries and statutory authorities.

*“My experience at the OAG has been developmental, constantly providing challenges that demand a high level of professional knowledge and training. Due to the nature of work one has to be focused and well organized. The OAG has also seen the need where it can, to invest in its people in order to add value in reaching its strategic objectives. It is also important to note that the work ethos is one of the best that I have experienced to date.”*

Winston has 10 years’ experience in audit and assurance services both in the Cayman Islands and Barbados. Prior to taking up his current position, he worked in a variety of firms including PWC (Cayman), Deloitte and Touche (Barbados), KPMG (Barbados) and UBS Fund Services (Cayman) Ltd. His experience has exposed him to a diverse spectrum of clients across a variety of sectors including insurance, reinsurance, hedge funds, tourism, manufacturing and large governmental organizations.

Winston graduated from the University of West Indies Cave Hill Campus with a BSc. (Hons) in Economics & Accounting, and he is a fellow of the Association of the Chartered Certified Accountants (ACCA) with a concentration in the International Accounting Standards. Recently he also obtained a Certification in International Public Sector Reporting.

Winston was born and raised in Barbados where he led a number of youth groups including the winning of national cultural awards in drama and poetry. Apart from his OAG responsibilities he enjoys running, watching cricket, attending church and contributing to the society. He also holds a Certified Nutrition & Wellness Consultant Certification.



With respect to developing the capacity of our staff a number activities were undertaken during the year which should enhance the skills of our staff to support the delivery of our mandate. These included:

- all staff attended professional update training on auditing and accounting standards. The OAG drove the development of this training which was made available to all Government financial staff
- two OAG staff members successfully completed the Certificate in International Public Sector Financial Reporting
- one staff member successfully completed Leadership Cayman
- one member of staff commenced training for the Certified Information Systems Auditor designation
- four staff members participated in e-learning training on risk based financial auditing provided by IDI in conjunction with the UN
- participation by staff in the training courses provided by the Civil Service College

The OAG is also an approved employer by the Association of Chartered Certified Accounts (ACCA), recognizing the opportunities that the OAG provides to team members for professional development who are ACCA qualified.

In terms of our overall capacity to deliver our mandate, our internal analysis indicates that we are reaching a stage where we have to make some serious decisions about what areas of our mandate we can continue to deliver and/or the areas within our professional standards we compromise on.

In these difficult economic times the challenges of ensuring the OAG has the appropriate capacity are significant and we will continue to engage with the relevant stakeholders to ensure our mandate is not compromised.

## OUR RESOURCES

This section provides a summary and analysis our use of financial, human and capital resources. The full audited accounts of the OAG are in the next section of the report and details of the outputs delivered are in Appendix 4.

### FINANCIAL SUMMARY

	2011/12 Actual	2011/12 Final Budget	Actual Variance From Final Budget \$000	Actual Variance From Final Budget %
	\$000	\$000	\$000	%
<b>Revenue</b>				
Audit services to Public Accounts Committee	575	575	0	0%
Audit services to other government agencies	2,153	1,655	498	30%
<b>Total Operating Revenue</b>	<b>2,728</b>	<b>2,230</b>	<b>498</b>	<b>22%</b>
<b>Expenses</b>				
Personnel costs	1,745	1,762	(17)	(1%)
Operating expenses	484	449	35	7.8%
Depreciation	22	19	3	13.6%
<b>Total Expenses</b>	<b>2,251</b>	<b>2,230</b>	<b>21</b>	<b>1%</b>

More detailed financial information is contained in our financial statements (see Appendix 2).

During 2011/12, our revenues from PAC was in line with budget as we billed PAC to the maximum amount we could under our appropriation for work done even though our costs to carry out this work was slightly higher than \$575,000 (see Appendix 4, Output AUD-02). Revenue from other Government agencies exceeded our budget by 30% as a result of continuing to clear the backlog of financial statement audits.

Our total expenses were slightly over our final budget by \$21,000 or 1%. The biggest increase in operating expenses over budget was for professional fees to deliver our performance and information technology audits (see Professional Services and Consultants listed below).

During the year we had to confirm with the Ministry of Finance that under sections 37 and 39 of the PMFL in order to continue with our financial audit work that we were going to incur additional expenditure which would be matched by the fee revenue generated. Without this the OAG would have

had to cease its financial audit work. This arose due to a mismatch between the budget that Ministry of Finance had originally imposed on the OAG and the resources required to undertake the financial audits, despite these audits generating the revenues that would be required to cover the expenses. This led to the increase during the year in the final expense budget of \$175k. This situation has been exacerbated by the backlog of financial statement audits, but ultimately is a structural issue that needs to be addressed if the OAG can effectively and efficiently deliver its mandate.

For full transparency it should be noted that the revenue and expenses detailed above do not include the audits undertaken on behalf of the Auditor General by the private sector audit firms. If these audits were accounted for through the OAG's financial statements revenue and expenditure would both increase by over \$400k. The OAG is trying to address this issue to ensure that there is full accountability for the cost of public sector audit. However this has proved challenging in the recent budget process and the status quo will remain until it can be achieved in a sustainable way.

As at the 30 June 2012, the OAG has a cash and cash equivalents balance of \$1.2m. Cash and cash equivalents balance has increased significantly over the past couple of years as a result of the significant surpluses achieved. However, when surpluses arise these are booked as a payable to the Cayman Islands Government, unless the Minister of Finance directs that the surplus can be retained. As a result, the OAG has a surplus payable of \$1.267m at 30 June 2012. The other significant balance in the statement of financial position is the accounts receivable and work in progress balance of \$485k. These balances are owed to the OAG from government ministries, portfolios, statutory authorities and government companies and are expected to be collected.

## SENIOR MANAGEMENT REMUNERATION

The remuneration and benefits of the OAG senior management during 2011/12 are disclosed below in bands of CI\$5,000 in line with the recommendations of the Information Commissioners Office.

Post	Remuneration	Remuneration	Benefits	Benefits
	2011/12	2010/11	2011/12	2010/11
	\$000	\$000	\$000	\$000
Auditor General	130 to 135	130 to 135	25 to 30	25 to 30
Deputy Auditor General	110 to 115	105 to 110	25 to 30	25 to 30
Audit Principal – Financial Audit	90 to 95	85 to 90	15 to 20	10 to 15
Audit Principal- Performance Audit	100 to 105	95 to 100	15 to 20	15 to 20

Remuneration includes salary, allowances and any additional remuneration paid during the financial year. Allowances paid during the year were motor car upkeep allowance and acting allowance. Additional remuneration was for the payout of unused annual leave. Benefits include pension and health care insurance payments during the financial year. During the year the Deputy Auditor General post was regarded from scale G to F.

## PROFESSIONAL SERVICES AND CONSULTANTS

Vendor	Service	Fees & related costs(\$)
Campbells	Procurement Audit Legal Advice	872
PWC	OAG Statutory Audit	18,384
Consultant Performance Auditor	Overseas Medical Services Audit	11,130
Consultant Performance Auditor	Major Capital Projects Audit	31,243
Consultant Performance Auditor	Major Capital Projects Audit	46,828
Consultant Quantity Surveyor	Major Capital Projects Audit	1,920
Consultant Performance Auditor	Governance Audit	22,322
Consultant Performance Auditor	Governance Audit	40,382
Deloitte and Touche	Information Technology Audit	57,300
Deloitte and Touche	Network Security Audit	20,000

During the year we engaged a number of professional firms and individual consultant performance auditors to support our audit work, and in the case of PWC to undertake the audit of the OAG. We engaged consultants to carry our performance audit work as all our in house staff continued to focus on the audits of financial statements. This situation is unlikely to change significantly unless we are able to address our staffing levels and build internal capacity to negate the need to use consultants.

Deloitte and Touche were engaged to undertake information technology and security audits of the core financial systems underpinning the financial statements of Government to enable us to effectively opine on the Government consolidated financial statements and meet professional auditing standards. The systems were the main accounting system, and the Customs, Immigration and General Registry systems.

## FINANCIAL PERFORMANCE RATIOS

Ratio	2011/12	2011/12	Annual Variance
	Actual	Original / Final Budget	
	%	%	%
Current Assets: Current Liabilities (Working Capital)	117	125	(8)
Total Assets: Total Liabilities	120	129	(9)

These ratios indicate that we should be able to meet all our current obligations as of 30 June 2012, even though there was a slight negative variance of 8% and 9%. We were anticipating a better working capital position at year end than what was actually achieved by year end.

## PHYSICAL CAPITAL MEASURES

Measure	2011/12 Actual	2011/12 Original/Final Budget	Annual Variance
Value of total assets	\$1,729,000	\$1,220,000	\$507,000
Asset replacements: total assets	0.4%	1%	(0.6%)
Book value of assets: initial cost of those assets	29.1%	31.7%	(2.6%)
Depreciation: cash flow on asset purchases	314%	158%	156%
Changes to asset management policies	None	None	-

Total assets were more than budget due to the significant increase in cash position (\$340,000) and significant increase in our accounts receivables (\$182,000) from budget. This is a result of the significant surplus (\$477,000) that we experienced during the fiscal year, which is a result of clearing the backlog of financial statements. Our asset replacements to total assets was 0.6% less than what was budgeted for. The depreciation to cash flows on asset purchases was 156% more than budget due to depreciation being \$3,000 more than budget and capital purchases \$5,000 less than budget. Only computers were purchased in the 2011/12 fiscal year; whereas we had also budgeted for a purchase of a small printer.

## HUMAN CAPITAL MEASURES

Measure	2011/12 Actual	2011/12 Original / Final Budget	Annual Variance
Total full time equivalent staff employed at 30 June	18	19	(1)
Staff turnover (%)			
Managers	0%	20%	(20%)
Professional and technical staff	8%	23%	(15%)
Clerical and labourer staff	0%	0%	0%
<b>Average length of service</b> (number of years in current position)			
Managers	7	4	3
Professional and technical staff	4	3	1
Clerical and labourer staff	4	3	1
Changes to personnel management system:	No changes to personnel management system		

We had no turnover during the year at the managerial level which resulted in a variance of 20% as planned on one resignation. At the Audit Project Leader (professional and technical staff) position, we had one employee resign during the year which resulted in a variance of (15%) as we anticipated three resignations. Under the clerical and labourer staff we had no resignations in line with our expectations. At year end, there was one Audit Project Leader position that was not filled.

## PROFILE OF OAG STAFF

As at 30 June 2012 the OAG has a diverse staffing profile with seven nationalities represented.

<b>Nationality</b>	<b>Senior Management</b>	<b>Auditor</b>	<b>Administrative</b>
Caymanian	-	1	1
British	1	-	-
Canadian	2	1	1
Jamaican	-	2	-
Barbadian	1	2	-
Kenyan	-	3	-
Filipino	-	3	-

In terms of gender we presently have twelve male and six female members of staff

<b>Gender</b>	<b>Senior Management</b>	<b>Auditor</b>	<b>Administrative</b>
Female	-	4	2
Male	4	8	-

# ANNUAL ACCOUNTS

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## Financial Statements

30 June 2012

# Office of the Auditor General Cayman Islands

## 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 (Amendment) Law (2011)*.

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 (Amendment) Law (2011)*.

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.

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.

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 2012.

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 2012;
- b) fairly reflect the financial position as at 30 June 2012 and the performance for the year ended 30 June 2012;
- 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.

PwC Cayman conducts an independent audit and expresses an opinion on the accompanying financial statements. PwC Cayman 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: 16 October 2012



Garnet Harrison, CA  
Deputy Auditor General &  
Freedom of Information Manager

DATE: 16 October 2012





**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, which comprise the statement of financial position as at 30 June 2012 and the statement of financial performance, statement of changes in net assets/equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as presented on pages 27 to 50 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

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 about 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 financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General as at 30 June 2012, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

*PricewaterhouseCoopers*

October 16, 2012

**Office of the Auditor General Cayman Islands**  
**Statement of Financial Position**  
**As at 30 June 2012**

(Expressed in Cayman Islands Dollars)

2010/11 Actual \$000		Note	2011/12 Actual \$000	2011/12 Final/Original Budget \$000	2011/12 Variance from Original Budget \$000
	Current Assets				
426	Cash and cash equivalents	1	1,206	866	340
718	Accounts receivable & work in progress	2	485	303	182
3	Prepayments		1	11	(10)
<b>1,147</b>	<b>Total Current Assets</b>		<b>1,692</b>	<b>1,180</b>	<b>512</b>
	Non-Current Assets				
41	Property, plant and equipment	3	37	40	(3)
41	Total Non-Current Assets		37	40	(3)
<b>1,188</b>	<b>Total Assets</b>		<b>1,729</b>	<b>1,220</b>	<b>509</b>
	Current Liabilities				
38	Accounts payable and accruals	4	67	77	(10)
85	Employee entitlements	5	109	65	44
790	Surplus payable	6	1,267	803	464
913	Total Current Liabilities		1,443	945	498
913	Total Liabilities		1,443	945	498
<b>275</b>	<b>Net Assets</b>		<b>286</b>	<b>275</b>	<b>11</b>
	Net Assets/Equity				
(113)	Contributed capital*	7	(579)	(222)	(357)
388	Accumulated surpluses		865	497	368
<b>275</b>	<b>Total Net Assets/Equity</b>		<b>286</b>	<b>275</b>	<b>11</b>

\* See Statement of Changes in Net Assets/Equity on page 32

The accounting policies and notes on pages 34 to 50 form part of these financial statements

**Office of the Auditor General Cayman Islands**  
**Statement of Financial Performance**  
**Year Ended 30 June 2012**  
(Expressed in Cayman Islands Dollars)

<b>2010/11 Actual</b>			<b>2011/12 Actual</b>	<b>2011/12 Original Budget</b>	<b>2011/12 Final Budget</b>	<b>2010/11 Variance from Original Budget</b>
<b>\$000</b>		<b>Note</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Revenue</b>						
533	Audit services provided to Public Accounts Committee	8	575	575	575	-
2,153	Audit services provided to other government agencies	8	2,153	1,480	1,655	673
<b>2,686</b>	<b>Total Revenue</b>		<b>2,728</b>	<b>2,055</b>	<b>2,230</b>	<b>673</b>
<b>Expenses</b>						
1,662	Personnel costs	9	1,745	1,762	1,762	(17)
312	Operating expenses	10	484	274	449	210
18	Depreciation	3	22	19	19	3
<b>1,992</b>	<b>Total Expenses</b>		<b>2,251</b>	<b>2,055</b>	<b>2,230</b>	<b>196</b>
<b>694</b>	<b>Net Surplus for the period</b>		<b>477</b>	<b>-</b>	<b>-</b>	<b>477</b>

The accounting policies and notes on pages 34 to 50 form part of these financial statements.

# Office of the Auditor General Cayman Islands

## Statement of Changes in Net Assets/Equity

### Year Ended 30 June 2012

(Expressed in Cayman Islands Dollars)

<b>2010/11 Actual</b>			<b>2011/12 Contributed Capital (Note 7)*</b>	<b>2011/12 Accumulated Surpluses / (Deficits)</b>	<b>2011/12 Total Net Assets / Equity</b>	<b>2011/12 Total Net Assets/Equity Final/Original Budget</b>	<b>2011/12 Total Net Assets/Equity Variance From Original Budget</b>
<b>\$000</b>	<b>Note</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
275	<b>Opening Balance</b>	(113)	388	275	275	-	
694	Net Surplus for the period	-	477	477	-	477	
(694)	Repayable of Net Surplus	<b>6, 7</b>	(477)	(477)	-	(477)	
-	Contributed goods and services	<b>7</b>	11	-	11	-	11
<b>275</b>	<b>Closing balance</b>		<b>(579)</b>	<b>865</b>	<b>286</b>	<b>275</b>	<b>11</b>

\* Contributed capital includes amounts contributed by the Cayman Islands Government to the Office of the Auditor General, less any distributions payable back to the Cayman Islands Government, including amounts repayable in respect of surpluses achieved.

The accounting policies and notes on pages 34 to 50 form part of these financial statements.

# Office of the Auditor General Cayman Islands

## Cash Flow Statement

As at 30 June 2012

(Expressed in Cayman Islands Dollars)

2010/11 Actual \$000		Note	2011/12 Actual \$000	2011/12 Original Budget \$000	2011/12 Final Budget \$000	2011/12 Variance from Original Budget \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts:						
209	Audit services provided to Public Accounts Committee		884	591	591	293
2,147	Audit service provided to other government agencies		2,077	1,688	1,862	389
Payments:						
(1,670)	Personnel costs		(1,720)	(1,772)	(1,772)	52
(354)	Operating expenses		(454)	(283)	(457)	(171)
<b>332</b>	<b>Net cash flows generated from operating activities</b>	<b>13</b>	<b>787</b>	<b>224</b>	<b>224</b>	<b>563</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
(8)	Purchase of non-current assets		(7)	(12)	(12)	5
<b>(8)</b>	<b>Net cash flows (used in) investing activities</b>		<b>(7)</b>	<b>(12)</b>	<b>(12)</b>	<b>5</b>
324	<b>Net increase in cash and cash equivalents</b>		780	212	212	568
102	Cash and cash equivalents at beginning of year		426	654	654	(228)
<b>426</b>	<b>Cash and cash equivalents at end of year</b>	<b>1</b>	<b>1,206</b>	<b>866</b>	<b>866</b>	<b>340</b>

The accounting policies and notes on pages 34 to 50 form part of these financial statements.

# Office of the Auditor General Cayman Islands

## Notes to the Financial Statements

### Year Ended 30 June 2012

(Expressed in Cayman Islands Dollars)

#### 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 (Amendment) Law (2011)* (“PMFL”). The main source of revenue is from audit services provided to the Cayman Islands Government (“the Government”). The Office is dependent on this source of income to continue in operation for the foreseeable future. Some of the audit services are undertaken by private sector auditors appointed by the Auditor General.

The Office of the Auditor General is located on the Third Floor, Anderson Square, Shedden Road, George Town, Grand Cayman. As at 30 June 2012, the Office had 18 employees (2011: 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.

There are no known accounting standards that have been adopted by the IPSAS Board for use in future years that will have a significant impact on these financial statements other than enhanced disclosures.

These financial statements have been prepared on a going concern basis and the accounting policies set out below have been applied consistently to all periods presented. The financial statements are presented in Cayman Islands dollars using the historical cost basis of accounting.

##### REPORTING PERIOD

The reporting period is the twelve months ended 30 June 2012.

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
**Year Ended 30 June 2012**  
(Expressed in Cayman Islands Dollars)

**GENERAL ACCOUNTING POLICIES (CONTINUED)**

**BUDGET AMOUNTS**

The 2011/12 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 2011/12 original budget was presented in the 2011/12 Annual Budget Statement of the Government of the Cayman Islands and approved by the Legislative Assembly on 27 June 2011. The original budget was revised under section 37 of the PMFL in April 2012, which represents the final budget. There was no 2011/12 supplemental budget submitted for approval to the Legislative Assembly for the revision under section 37 of the PMFL as the amount appropriated from the Legislative Assembly did not change.

**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 is affected by those revisions. As at 30 June 2012 and 30 June 2011, no reliable fair value estimate of contributed goods and services provided to the Office by Government entities could be made and therefore no estimated amounts are recorded in these financial statements.

# Office of the Auditor General Cayman Islands

## Notes to the Financial Statements

### Year Ended 30 June 2012

(Expressed in Cayman Islands Dollars)

#### 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 recognised in future periods as revenue in the year in which it is collected.

###### Work in Progress

Work in progress represents time spent performing audit services that have 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)
- Leasehold Improvements Over the term of the lease



**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
**Year Ended 30 June 2012**  
(Expressed in Cayman Islands Dollars)

**SPECIFIC ACCOUNTING POLICIES (CONTINUED)**

**Property, Plant and Equipment (continued)**

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 or 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 amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value for use in service.

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**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 recognised 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. Pension contributions are included in personnel costs in the statement of financial performance. In 2011/12 and 2010/11 all employees of the Office belonged to the defined contribution plan. The Public Service Pension Liability for the defined benefit plan is an executive liability managed by the Minister of Finance and accordingly is not recognised in these financial statements.

**Surplus Payable**

Pursuant to the *Public Management & Finance (Amendment) Law (2011)* 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 Minister of Finance directs that the surplus can be retained.

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
**Year Ended 30 June 2012**  
(Expressed in Cayman Islands Dollars)

**SPECIFIC ACCOUNTING POLICIES (CONTINUED)**

**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 performance audits 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 recognised for the consumption of the estimated fair value of contributed goods and services received, when an estimate can realistically be made.

**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 recognised as an expense on a straight line basis over the lease term.

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
**Year Ended 30 June 2012**  
(Expressed in Cayman Islands Dollars)

**SPECIFIC ACCOUNTING POLICIES (CONTINUED)**

**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.

**NOTE 1: CASH AND CASH EQUIVALENTS**

Cash and Cash Equivalents include a non-interest bearing 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.

<b>2010/11 Actual \$000</b>		<b>2011/12 Actual \$000</b>	<b>2011/12 Final/Original Budget \$000</b>	<b>2011/12 Actual vs. Original Budget \$000</b>
426	Bank accounts	1,206	866	340
426	<b>Total Cash and Cash Equivalents</b>	<b>1,206</b>	<b>866</b>	<b>340</b>

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

Cash and cash equivalents increased over budget by \$340k and prior year actual by \$780k due to the Office having a significant surplus (\$477k) for the year and positive cash flows from its operating activities as indicated in the Cash Flow Statement. See also note 13 for reconciliation of operating surplus to cash flows from operating activities.

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
**Year Ended 30 June 2012**  
(Expressed in Cayman Islands Dollars)

**NOTE 2: ACCOUNTS RECEIVABLE & WORK IN PROGRESS**

2010/11 Actual		2011/12 Actual	2011/12 Final/Original Budget	2011/12 Actual vs. Original Budget
\$000		\$000	\$000	\$000
309	Audit services to PAC (accounts receivable)	-	-	-
38	Audit services to PAC (work in progress)	38	45	(7)
208	Audit services to other government entities (accounts receivable)	205	105	100
163	Audit services to other government entities (work in progress)	242	153	89
718	<b>Total gross accounts receivable &amp; work in progress</b>	485	303	182
-	Less: provision for doubtful debts	-	-	-
<b>718</b>	<b>Total Net accounts receivable &amp; work in progress</b>	<b>485</b>	<b>303</b>	<b>182</b>

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

**Accounts Receivable & Work in Progress for audit services provided to PAC:** The Office did not expect PAC to have any outstanding balances at year end as they normally pay within a month of the bill being issued and therefore the actual was in line with budget. However this was \$309k less than the prior year when PAC did not meet in the latter half of the year and were therefore unable to approve and pay our invoices. Work in progress was in line with the prior year actual and only \$7k less than budgeted.

**Accounts Receivable & Work in Progress for audit services provided to other government entities:** The Office did not expect to have as large a balance owing from other government entities as compared to budget. The \$189k increase over budget was due to the Office's focus of clearing the back log of financial statements and therefore, greater amounts were owed by some entities who were managing their cash flows. The 30 June 2012 balance was \$37k more than the 30 June 2011 balance for the same reason as noted above.

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
**Year Ended 30 June 2012**  
(Expressed in Cayman Islands Dollars)

**NOTE 3: PROPERTY, PLANT AND EQUIPMENT**

	Furniture & Fittings \$000	Office Equipment \$000	Computer Equipment \$000	Leasehold Improvements \$000	Total \$000	Final/Original Budget \$000	Actual vs. Original Budget \$000
<u>Cost</u>							
At July 1, 2010	60	28	35	-	123	132	(9)
Additions	-	-	4	4	8	13	(5)
Disposals	(5)	-	(8)	-	(13)	-	(13)
At June 30, 2011	55	28	31	4	118	145	(27)
<u>Accumulated Depreciation</u>							
At July 1, 2010	34	13	23	-	70	76	(6)
Accumulated depreciation on disposals	(3)	-	(8)	-	(11)	-	(11)
Depreciation charge for the year	5	5	8	-	18	21	(3)
At June 30, 2011	36	18	23	-	77	97	(20)
<b>Net Book Value at June 30, 2011</b>	<b>19</b>	<b>10</b>	<b>8</b>	<b>4</b>	<b>41</b>	<b>48</b>	<b>(7)</b>
<u>Cost</u>							
At July 1, 2011	55	28	31	4	118	121	(3)
Additions	11	-	7	-	18	13	5
Disposals	-	-	(9)	-	(9)	(8)	(1)
At June 30, 2012	66	28	29	4	127	126	1
<u>Accumulated Depreciation</u>							
At July 1, 2011	36	18	23	-	77	75	2
Accumulated depreciation on disposals	-	-	(9)	-	(9)	(8)	(1)
Depreciation charge for the year	10	5	6	1	22	19	3
At June 30, 2012	46	23	20	1	90	86	4
<b>Net Book Value at June 30, 2012</b>	<b>20</b>	<b>5</b>	<b>9</b>	<b>3</b>	<b>37</b>	<b>40</b>	<b>(3)</b>

**Explanation of major variances against the original budget:**

The purchase of computer equipment was in line with the budget, but the Office did not purchase a printer as anticipated during the fiscal year. However, the Office recognised \$11k in additional furniture and fixtures that was not recognised in previous years; therefore additions were \$5k greater than budgeted. All other items were in line with budget.

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
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**NOTE 4: ACCOUNTS PAYABLE & ACCRUALS**

2010/11 Actual \$000		2011/12 Actual \$000	2011/12 Final/Original Budget \$000	2011/12 Actual vs. Original Budget \$000
22	Trade Creditors	49	55	(6)
16	Accruals	18	22	(4)
<b>38</b>	<b>Total</b>	<b>67</b>	<b>77</b>	<b>(10)</b>

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

**Trade Creditors:** The Office budgeted to have trade creditors' payable of \$55k versus the actual amount of \$49k, which resulted in a variance of \$6k under budget which is closely in line with the budgeted amount. The increase of \$27k in Office trade creditors over the prior year was primarily due to professional fees owing to our consultants conducting IT audit work at year end of \$39k, which was offset by no legal fees owing at year end (2011: \$12k).

**Accruals:** The Office budgeted to have accruals of \$22k versus the actual amount of \$18k, which resulted in a variance of \$4k under budget due to audit fees being less than estimated as a result of not auditing the statements of outputs delivered. There was no significant variance from prior year actual.

**NOTE 5: EMPLOYEE ENTITLEMENTS (CURRENT)**

2010/11 Actual \$000	Current Employee Entitlements Are represented by:	2011/12 Actual \$000	2011/12 Final/Original Budget \$000	2011/12 Actual vs. Original Budget \$000
55	Annual Leave	67	60	7
30	Time off in Lieu	42	5	37
<b>85</b>	<b>Total Employee Entitlements</b>	<b>109</b>	<b>65</b>	<b>44</b>

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
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 (Expressed in Cayman Islands Dollars)

**NOTE 5: EMPLOYEE ENTITLEMENTS (CURRENT) CONTINUED**

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

Actual Annual Leave was \$7k greater than budget and \$12k greater than last year's actual due to annual leave not being taken by several employees during the year in order to complete performance audits and the clearance of backlog of financial statement audits prior to year end. Time off in lieu was also \$37k greater than budget as we were anticipating more staff would be able to use up their time off in lieu than actually occurred. Time of in lieu increased by \$7k over last year's actual mainly due to employees working extra hours to complete performance audits and clear the backlog of financial statement audits prior to year end.

**NOTE 6: SURPLUS PAYABLE**

2010/11 Actual \$000		2011/12 Actual \$000	2011/12 Final/Original Budget \$000	2011/12 Actual vs. Original Budget \$000
790	Surplus Payable	1,267	790	477
<b>790</b>	<b>Total</b>	<b>1,267</b>	<b>790</b>	<b>477</b>

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

The Office budgeted to break even and therefore did not budget for any change in surplus payable. The Office had surpluses of \$50k for the year ending 30 June 2005, \$46k for the year ending 30 June 2007, \$694k for the year ending 30 June 2011. As a result of the current year surplus of \$477k the Office has a surplus payable to the Cayman Islands Government in the amount of \$1,267k (30 June 2011: \$790k) as the Minister of Finance has not informed the Office if it can retain the surpluses from prior years as at the date of these financial statements.

**Office of the Auditor General Cayman Islands**  
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**NOTE 7: CONTRIBUTED CAPITAL**

Pursuant to the 2011/12 and 2010/11 Annual Budget of the Cayman Islands Government, goods and services provided between core government entities would not incur a cost. The Office received goods and services from other core government entities during the current year and prior year with no charge. Management was unable to estimate the fair value of these contributed goods and services due to the lack of accounting systems to track the costs of these transactions in accordance with IPSAS 23 – Revenue from non-exchange transactions (taxes and transfers).

Services provided to the Office include human resource services, financial support services, legal services, computer hardware & systems support services, and software licensing fees.

An increase of \$11k was recognised in contributed capital during the current fiscal year for assets previously not recognised in the financial statement.

**NOTE 8: REVENUE**

2010/11 Actual		2011/12 Actual	2011/12 Original Budget	2011/12 Final Budget	2011/12 Actual vs. Original Budget
\$000		\$000	\$000	\$000	\$000
	<b>Revenue</b>				
533	Audit Services provided to Public Accounts Committee	575	575	575	-
2,153	Audit Services provided to other government agencies	2,153	1,480	1,655	673
<b>2,686</b>	<b>Total Revenue</b>	<b>2,728</b>	<b>2,055</b>	<b>2,230</b>	<b>673</b>

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

In regards to audit services provided to PAC we billed PAC the \$575k as that was our appropriation amount approved by the Legislative Assembly, although our costs for providing this service were slightly higher. Audit services provided to PAC were \$42k greater than the prior year amount as we looked to deliver our performance audit mandate during the year.

The 2011/12 amount for audit services provided to other government agencies increased by \$673k over budget and was consistent with the prior year revenue amount as a result of the continued focus on



**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
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clearing the back log of financial statements. Significantly more financial statement audits were completed than were anticipated in the budget.

**NOTE 9: PERSONNEL COSTS**

<b>2010/11 Actual \$000</b>		<b>2011/12 Actual \$000</b>	<b>2011/12 Final/Original Budget \$000</b>	<b>2011/12 Actual vs. Original Budget \$000</b>
1,427	Salaries & allowances (including employee pension contributions)	1,475	1,456	19
145	Health insurance	184	182	2
80	Employer pension expense	79	80	(1)
10	Other personnel costs	6	44	(38)
<b>1,662</b>	<b>Total Personnel Costs</b>	<b>1,745</b>	<b>1,762</b>	<b>(17)</b>

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

**Salaries & Allowances:** In 2011/12, the Office’s salaries were over budget by \$19k due to overtime payments of \$37k, which was greater than the overtime budget by \$28k. This was due to employees working extra hours to clear the back-log of financial statement audits. This was offset by other savings of \$9k thereby reducing the over budget amount to \$19k. The increase in salaries by \$48k from the prior year was due to reinstatement of the 3.2% cost of living award in December and the full motor car upkeep allowance, and having a full staff complement for most of the year.

**Health insurance:** Health insurance benefits were in line with the budget, but increased by \$39k over the prior year due to the increase in premiums charged by CINICO.

**Other personnel costs:** The Office had savings from budget (\$38k) in other personnel costs as a result of recruiting new staff locally. Therefore the Office did not incur flight, freight costs and other related expenses for recruitment.

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
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(Expressed in Cayman Islands Dollars)

**NOTE 10: OPERATING EXPENSES**

2010/11 Actual \$000		2011/12 Actual \$000	2011/12 Original Budget \$000	2011/12 Final Budget \$000	2011/12 Actual vs. Original Budget \$000
51	Professional fees	238	8	184	230
124	Operating leases	125	125	125	-
27	Other goods and services	20	25	25	(5)
17	Utilities	19	17	17	2
24	Audit Fees	18	22	22	(4)
22	Travel & subsistence	18	9	9	9
10	Software licensing fees	19	23	23	(4)
6	Training	12	14	14	(2)
10	Janitorial services	10	12	12	(2)
3	Insurance	2	4	4	(2)
2	Computer hardware maintenance	2	2	2	-
16	Legal Fees	1	13	13	(12)
<b>312</b>	<b>Total Operating Expenses</b>	<b>484</b>	<b>274</b>	<b>450</b>	<b>210</b>

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

**Professional Fees:** Professional fees were over the original budget by (\$230k) as a result of: hiring external consultants to conduct performance audit and IT audit work.

The 2011/12 actual amount was \$187k higher than the 2010/11 amount, due to more consultants being used to carry out performance audits and an IT audit on our behalf.

**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. 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.

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
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**NOTE 10: OPERATING EXPENSES (CONTINUED)**

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

**Travel & Subsistence:** During 2011/12, the Office spent \$18k (30 June 2011: \$22k) on travel and subsistence. This included business related trips in 2011/12 to: Antigua – IDI planning seminar on risk based auditing; Antigua – CAROSAI regional Auditor General’s meeting; Cayman Brac – financial statement audit; Grenada – IDI training course on risk based audit; Jamaica – CAROSAI strategic planning meeting; Japan – INTOSAI capacity building meeting; London - Department of Tourism and Maritime Authority audit; and New York – Department of Tourism audit. Some of the costs were reimbursed by supporting organizations.

In 2010/11 the Office’s business trips related to: Cayman Brac for financial statement and performance audits; Namibia - 21<sup>st</sup> Commonwealth Auditor General’s Conference (held every 3 years); Barbados - CAROSAI Conference; London – INTOSAI capacity building meeting; Buenos Aires, Argentina – CReCER Conference; and local hotel and car rental expenses for consultants working on performance audits.

**Software Licensing Fees:** Software licensing fees were slightly under budget by \$4k, but were higher than prior year actual by \$9k as work was undertaken by a firm to redevelop our website.

**Legal Fees:** Legal fees in total were \$12k under budget and \$15k less than the prior year as a result of nominal use of outside legal expertise during the current fiscal year.

**NOTE 11: COMMITMENTS**

The Office has a non-cancellable accommodation lease with Anderson Square Development Ltd. At 30 June 2012 there are two years remaining on the lease, which carries an operating commitment of \$250k (30 June 2011: \$369k).

**NOTE 12: CONTINGENT LIABILITIES**

As at 30 June 2012 there are no quantifiable and non-quantifiable contingent liabilities (30 June 2011: no contingent liabilities) and therefore no contingent liabilities have been provided for within these financial statements.

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
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**NOTE 13: RECONCILIATION OF NET SURPLUS TO CASH FLOWS GENERATED FROM OPERATING ACTIVITIES**

2010/11 Actual \$000		2011/12 Actual \$000	2011/12 Final/Original Budget \$000	2011/12 Actual vs. Original Budget \$000
694	Net Surplus	477	-	477
	<b>Non-cash movements</b>			
18	Depreciation	22	19	3
(50)	(Decrease)/Increase in payables/accruals	53	(8)	61
(330)	Decrease/(increase) in receivables	233	213	20
-	Decrease in prepayments	2	-	2
<b>332</b>	<b>Net cash flows from operating activities</b>	<b>787</b>	<b>224</b>	<b>563</b>

**NOTE 14: RELATED PARTY TRANSACTIONS**

The Audit Office is controlled by the Cayman Islands Government and therefore government ministries, portfolios, statutory authorities, government companies and other government Offices are considered related parties. As indicated in the approved 2011/12 and 2010/11 Annual Budget Statement of Government there were no inter-agency charges between core government entities, except for audit services revenue. As a result the Office was unable to make an estimate of the fair value of these contributed goods and services received for the 2011/12 and 2010/11 fiscal years as described in note 7.

**KEY MANAGEMENT PERSONNEL**

There are four senior managers in the Office. Their remuneration includes: regular salary, pension contributions, health insurance contributions, acting allowance, and motor car upkeep. Total remuneration for senior management in 2011/12 was \$530k (2010/11: \$522k). There were no loans made to key management personnel or their close family members in 2011/12 (2010/11: \$0).

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
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**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 (2010 Revision).

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**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 fails to discharge its obligation to repay. All bank balances are with one financial institution located in the Cayman Islands which management considers financially secure and well managed.

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 2012 and 2011, 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 other Government entities.

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.

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**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.

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
**Year Ended 30 June 2012**  
(Expressed in Cayman Islands Dollars)

**NOTE 15: FINANCIAL RISK MANAGEMENT (CONTINUED)**

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, paying creditors on their due dates, 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 2012 and 2011, 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 2012 and 2011, the carrying value of cash and cash equivalents, accounts receivable, work in progress, accounts payable, employee entitlements, and surplus payable upon demand 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.

# APPENDIX 1 – ENTITIES AUDITED BY THE AUDITOR GENERAL

Under the PMFL the Auditor General is responsible for carrying out the audits of all public sector entities. With respect to the annual financial statements audit of a number of statutory authorities and government companies the audit work is carried out on his behalf by private sector audit firms. The following list provides details of all the individual public sector entities that require to be audited by the Auditor General, and who carried out the audits on his behalf.

Entity	Auditor
Office of the Complaints Commissioner	Office of the Auditor General
Portfolio of Internal and External Affairs	Office of the Auditor General
Cabinet Office	Office of the Auditor General
Portfolio of the Civil Service	Office of the Auditor General
Portfolio of Legal Affairs	Office of the Auditor General
Judicial Administration	Office of the Auditor General
Information Commissioners Office	Office of the Auditor General
Ministry of Financial Services, Tourism and Development	Office of the Auditor General
Ministry of Health, Environment, Youth, Sports and Culture	Office of the Auditor General
Ministry of District Administration, Works, Lands and Agriculture	Office of the Auditor General
Ministry of Education, Training and Employment	Office of the Auditor General
Ministry of Community Affairs, Gender and Housing	Office of the Auditor General
Cayman Airways Limited	PWC
Cayman Islands Airport Authority	Office of the Auditor General
Cayman Islands Development Bank	Office of the Auditor General
Cayman Islands Monetary Authority	Office of the Auditor General
Cayman Islands National Museum	KPMG
Cayman National Cultural Foundation	KPMG
Cayman Islands Stock Exchange	Deloitte
Cayman Turtle Farm (1983) Ltd.	KPMG
Children & Youth Services Foundation	BDO
CINICO	PWC

<b>Entity</b>	<b>Auditor</b>
Civil Aviation Authority	Office of the Auditor General
Electricity Regulatory Authority	Office of the Auditor General
Health Services Authority	Office of the Auditor General
Information and Communications Technology Authority	Office of the Auditor General
Maritime Authority of the Cayman Islands	Office of the Auditor General
National Drug Council	Office of the Auditor General
National Gallery of the Cayman Islands	PWC
National Housing Development Trust	Office of the Auditor General
National Roads Authority	Office of the Auditor General
Port Authority of the Cayman Islands	Office of the Auditor General
Public Service Pensions Board	Office of the Auditor General
Segregated Insurance Fund	Office of the Auditor General
Sister Islands Affordable Housing Development Corporation	Office of the Auditor General
Tourism Attractions Board	Office of the Auditor General
University College of the Cayman Islands	Office of the Auditor General
Water Authority of the Cayman Islands	KPMG



## APPENDIX 2 - REPORTS ISSUED DURING 2011/12

Report	Date of Issue	Summary
Government's Management of Procurement	11 July 2011	The report examined the Cayman Islands Government procurement framework for acquiring supplies, services and assets greater than \$250,000 to ensure it delivered value-for-money while conforming with good public sector procurement practice.
Government's Management of Procurement – The Case Studies	22 August 2011	The report looks at the procurement of a loan during 2010-11, the Closed Circuit television system in 2010, and the Jazz Fest in 2009.
Financial and Performance Reporting – Progress Update as at 31 July 2011	25 August 2011	This report provided an update to the Legislative Assembly on the progress made in the presentation of financial statements across the public sector as at 31 July 2011. This update covered the six years since the implementation of the PMFL from 2004/05 to 2009/10.
Financial and Performance Reporting – Progress Update as at 2 December 2011	16 December 2011	This report provided an update to the Legislative Assembly on the progress made in the presentation of financial statements across the public sector as at 2 December 2011. This update covered the seven years since the implementation of the PMFL from 2004/05 to 2010/11.
Management of Overseas Medical Expenses	17 May 2012	The report examines expenditure on overseas medical services and the significant risks associated with this type of expenditure.
Road Paving Expenditure In Cayman Brac	17 May 2012	This report examines concerns raised with the OAG regarding the paving program in Cayman Brac.
Fuel Card Usage and Management Follow-Up	25 May 2012	This report was a follow to a report issued in 2010 on the disbursement of fuel from the Department of Vehicle and Equipment Services which found significant weaknesses and opportunity for abuse in the system.

<b>Report</b>	<b>Date of Issue</b>	<b>Summary</b>
Management of Major Capital Assets	21 June 2012	The report describes the Auditor General's concerns about how Government manages major capital projects to ensure the effective use of public funds for this significant expenditure.

## APPENDIX 3 - OAG PERFORMANCE FRAMEWORK

### Performance Measures

#### Well Managed Public Services

Measure	Prior Year	Current Year	Target
<b>The quality and timeliness of financial reporting across government is improving</b>			
The percentage of modified audit reports decreases from one financial audit to the next			
<ul style="list-style-type: none"> <li>Unqualified Opinions</li> </ul>			
<ul style="list-style-type: none"> <li>Qualified Opinions</li> </ul>			
<ul style="list-style-type: none"> <li>Adverse Opinions</li> </ul>			
<ul style="list-style-type: none"> <li>Disclaimers of Opinion</li> </ul>			
<b>Key Users of our reports in organisations we audit respond to our findings and recommendations</b>			
Percentage of issues raised in our financial audits that are addressed from one audit to the next			
Percentage of performance audit recommendations examined in our follow-up audits where progress has been assessed as satisfactory			

#### Fostering Good Relationships

Measure	Prior Year	Current Year	Target
<b>Our work adds value to the organisations we audit</b>			
Percentage of senior managers who find our financial audits add value			
Percentage of senior managers who find our performance audits add value			
<b>Quality of service</b>			
The percentage rating of the service quality for our financial audits from the organisations we audit			

## Leading by Example

Measure	Prior Year	Current Year	Target
External peer reviews find our quality management frameworks are suitably designed and are operating effectively			
<ul style="list-style-type: none"> <li>Financial Audits</li> </ul>			
<ul style="list-style-type: none"> <li>Performance Audits</li> </ul>			

## Performance Indicators

### Audit Service Indicators

Indicators	Prior Year	Current Year	Target
<b>Our Work Completed on Time</b>			
Number of audit reports issued for public authorities within the statutory timeframe			
Number of ISA260 reports issued to those charged with governance			
Number of Performance Audit Reports issued			
Number of Public Interest Reports issued			
<b>Our work completed on budget</b>			
Percentage of audit completed on budget			
<ul style="list-style-type: none"> <li>Financial Audits – Ministries and Portfolios</li> </ul>			
<ul style="list-style-type: none"> <li>Financial Audits – Statutory Authorities and Government Companies</li> </ul>			
<ul style="list-style-type: none"> <li>Performance Audits</li> </ul>			
<b>Our audit reports are reliable</b>			
Percentage of internal practice reviews that found the opinions and conclusions expressed in our audit reports were appropriate and supported by evidence			
<b>Quality of service</b>			
Number of formal complaints about the conduct of our audits			
<ul style="list-style-type: none"> <li>Financial Audits</li> </ul>			
<ul style="list-style-type: none"> <li>Performance Audits</li> </ul>			

### Other Organisational Performance Indicators

Measure	Prior Year	Current Year	Target
Percentage of Freedom of Information requests responded to within the required timescales.			
Percentage of formal complaints responded to within the required timescales.			
Percentage Compliance with the PSML and the personnel regulations - HR Audit Results			
Percentage of employees who believe the office is an above average place to work			

## APPENDIX 4 – OUTPUTS DELIVERED 2011/12

The outputs to be delivered in 2011/12 to the PAC as per the Annual Budget Statement for the OAG.

AUD 2	Investigations and Reports	
<p><b>Description</b></p> <p>Audit reports and advice to Public Accounts Committee (PAC) and other Legislative Committees relating to the following:</p> <ul style="list-style-type: none"> <li>• Management of executive financial transactions</li> <li>• Financial Management of Entire Public Sector (EPS) or of any Ministry, Portfolio, Statutory Authority or Government Company</li> <li>• The economy, efficiency and effectiveness of any Ministry, Portfolio, Statutory Authority or Government Company</li> <li>• Other matters of public interest as determined by the Auditor General</li> </ul>		
<p><b>Measures</b></p> <p><b>Quantity</b></p> <ul style="list-style-type: none"> <li>• Number of reports issued to the Legislative Assembly</li> <li>• Number of audits in progress / partial reports at year end</li> </ul>	<p><b>2011/12 Actual</b></p> <p>8 1</p>	<p><b>2011/12 Budget</b></p> <p>3-6 1-3</p>
<p><b>Quality</b></p> <ul style="list-style-type: none"> <li>• Issued reports are reviewed and signed off by Audit Manager and/or Auditor General</li> <li>• Request client's comments on the draft reports and amend the final report if necessary</li> <li>• Report recommendations are agreed to by PAC</li> </ul>	<p>100% 100% N/A</p>	<p>100% 100% 80-100%</p>
<p><b>Timeliness</b></p> <ul style="list-style-type: none"> <li>• All audit reports become public documents within one week of submission to the Speaker of the Legislative Assembly.</li> <li>• All reports are publicly available through the website within two days after becoming a public document.</li> </ul>	<p>87.5% 100%</p>	<p>100% 100%</p>
<p><b>Location</b></p> <p>Cayman Islands: Office of the Auditor General, 3<sup>rd</sup> Floor Anderson Square, George Town, and Client premises (local &amp; international)</p>	<p>100%</p>	<p>100%</p>
<p><b>Cost (of producing the Output)</b></p>	<p><b>\$580,360</b></p>	<p><b>\$540,000</b></p>
<p><b>Price (paid by PAC for the output)</b></p>	<p><b>\$571,490</b></p>	<p><b>\$540,000</b></p>
<p><b>Related Broad Outcome:</b></p> <p>9. Restoring Prudent Fiscal Management</p>		

<b>AUD 8</b>	<b>Support Services to the National Hurricane Committee and Hazard Management</b>	
<b>Description</b>		
Advice and assistance to Hazard Management Cayman Islands, which includes providing strategic direction for the National Emergency Operations Centre, Support Services Group when a national disaster occurs and oversight and monitoring through the Logistics Support System (LSS) for the distribution of international aid donated to the Government.		
<b>Measures</b>	<b>2011/12 Actual</b>	<b>2011/12 Budget</b>
<b>Quantity</b>		
<ul style="list-style-type: none"> <li>Number of Memo of Understandings (MOU) updated</li> <li>Number of training sessions provided/attended on LSS</li> <li>Number of Hazard Management Plan Report updated</li> <li>Number of relief support services provided through the National Emergency Operations Centre due to a disaster</li> </ul>	0 0 1 0	3 1 1 1
<b>Quality</b>		
<ul style="list-style-type: none"> <li>MOUs are prepared by senior management and agreed and signed off by the Auditor General</li> <li>LSS training evaluation rated as good to very good by the participants</li> <li>Hazard Management Plan prepared in accordance with the Hazard Management Cayman Islands standards</li> <li>Relief support services provided to the standards required by Hazard Management Cayman Islands</li> </ul>	N/A N/A 100% N/A	100% 80-100% 100% 80-100%
<b>Timeliness</b>		
<ul style="list-style-type: none"> <li>MOU signed off by mid-June</li> <li>LSS training session held in May</li> <li>Hazard Management Plan submitted by 31<sup>st</sup> of May</li> <li>Relief Support services provided within two days of the disaster</li> </ul>	0% 0% 100% N/A	100% 100% 100% 90-100%
<b>Location</b>		
Cayman Islands	100%	100%
<b>Cost (of producing the Output)</b>	<b>\$5,241</b>	<b>\$35,000</b>
<b>Price (paid by PAC for the output)</b>	<b>\$3,510</b>	<b>\$35,000</b>
<b>Related Broad Outcome</b>		
9. Restoring Prudent Fiscal Management		





## **Contact us**

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### Business hours:

8:30am - 4:30pm

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CAYMAN ISLANDS  
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## **Complaints**

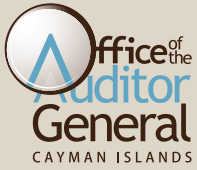
To make a complaint about one of the organisations we audit or about the OAG itself, please contact Garnet Harrison at our address, telephone or fax number or alternatively email: [garnet.harrison@oag.gov.ky](mailto:garnet.harrison@oag.gov.ky)

## **Freedom of Information**

For freedom of information requests please contact Garnet Harrison at our address, telephone or fax number. Or alternatively email: [foi.aud@gov.ky](mailto:foi.aud@gov.ky)

## **Media enquiries**

For enquiries from journalists please contact Martin Ruben at our phone number or email: [Martin.Ruben@oag.gov.ky](mailto:Martin.Ruben@oag.gov.ky)



October 2012