



# **Annual Report**

of

***Office of the Auditor General***

**For the Year Ended 30 June 2009**

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## 1. Overview of Performance for the Year

### Introduction

This document discusses the performance of the Office of the Auditor General ("Office") for the year ending 30 June 2009. It includes the audited financial statements as well as information about the Office's services provided to the Government of the Cayman Islands. Those services are provided in accordance with the requirements set out in the *Public Management and Finance Law (2005 Revision)*, sections 58 to 69.

We discuss our performance in 2008-09 and compare it to the approved plans and budgets for the Office of the Auditor General. The original *Annual Budget Statement* was approved in the Legislative Assembly in June 2008. In March 2009, a supplemental budget (final budget) for the Office was approved by the Legislative Assembly. This *Annual Report* compares the actual performance of the Office of the Auditor General to the supplemental budget (final budget).

## Summary of Performance

### Output Performance

#### AUD-02 Investigations and Reports

##### Reports Issued:

We issued four reports to the Speaker of the Legislative Assembly and Public Accounts Committee for the 2008-09 fiscal year:

1. ***Special Report of the Auditor General on the State of Financial Accountability Reporting*** – The review documented the present state of financial accountability for all Government entities, including the twelve government Ministries and Portfolios as well as the twenty five statutory authorities and government companies. The report makes recommendations to improve the current situation as a result of the delays in financial information becoming public information. The report was issued in July 2008.
2. ***Special Report of the Auditor General on the Scrap Metal Tender and Contract with Matrix International Inc.*** – There had been significant public interest in the awarding of this contract and in February 2008, the Public Accounts Committee requested the Office of the Auditor General to review this contract. At that time, the contract was still active, and therefore we reviewed the tender preparation process, the evaluation of submissions and the process followed in awarding the contract. The report was issued in September 2008.
3. ***Special Report of the Auditor General on the Purchase of a Helicopter by the Royal Cayman Islands Police*** – In September 2008, His Excellency the Governor wrote to the Auditor General requesting that the Office review the purchase by the Royal Cayman Islands Police Service (RCIPS) of a helicopter. We reviewed the procurement process for the helicopter and reported on the cost of the helicopter's purchase and its retrofit. In the report, we assessed whether this was the right helicopter to purchase given the needs of the RCIPS and expectations of Cabinet. This report was issued in October 2008.

4. ***Special Report of the Auditor General on the Review of the Gasoline Charges Incurred by Pedro St. James and the Policies and Procedures in Place for the Period of July 2003 to April 2007*** – We conducted this review at the request of the CEO of the Tourism Attraction Board. This review undertook to determine if fuel charges were being incurred by staff of Pedro St. James in a manner inconsistent with its policies and procedures. The investigation, which covered the period June 2003 to April 2007, revealed a number of irregularities and departures from good business practices. This report was issued in January 2009.

Investigations & Reports in Progress as of 30 June 2009:

1. ***Special Report on the Review of Expenditures of Operations Tempura and Cealt.*** We conducted this audit to provide the Legislative Assembly with a full accounting of the costs incurred by Operations Tempura and Cealt and to assess whether the government is managing the initiatives with due regard for value-for-money. The audit is approximately 95% complete and we anticipate issuing the report to the Legislative Assembly in October 2009.
2. ***Special Report on Boatswain Beach Development Project.*** Our audit of the Boatswain's Beach Development Project reviews the key elements in the contracting process for the Project's construction and assesses the reasonableness of the initial cash flow projections for the Project's operations. The audit is approximately 75% complete.
3. ***Special Report on Cayman Brac & Little Cayman.*** We are assessing certain Government operations in Cayman Brac & Little Cayman with respect to road maintenance and construction and the affordable housing project. The audit is approximately 60% complete.
4. ***Special Report on Customs Waivers & Duties.*** We are reviewing the waiver of duties payable on importation and the mandatory penalties for evasion of duty. We will assess the potential loss of revenue for the Government. The audit is only approximately 10% complete.
5. ***Special Update Report of the Auditor General on the State of Financial Accountability Reporting.*** We are updating the Legislative Assembly on the state of financial accountability for all Government entities since the last report issued in July 2008. The review will assess the twelve government Ministries and Portfolios as well as the twenty five statutory authorities and government companies. The report is approximately 30% complete.
6. ***The Auditor General's Report on the Government's 2004/05 financial and output statements.*** The Office has completed the audits of the individual Ministry/Portfolio financial and output statements and has just started the audit of the transactions in the Executive Accounts. There have been significant delays with regards to the submission of Executive financial transactions. We are still waiting for the Treasury to provide us consolidated financial statements of the Government and related audit schedules for audit. We will be preparing a report on the 2004-05 Government Accounts upon

completion of the audit of Government's consolidated financial statements. We estimate that we are only 10% complete.

7. **Specialist Technical Advice Provided to Government Organizations.** We provided 281.75 hours of technical advice to government organizations during 2008-09. This advice was provided upon request and in a manner that did not conflict with the independence of the Office of the Auditor General. We expect that this type of advice will continue in 2009-10.
8. **Minor Reports – Advisory & Consultations.** We completed work on some minor reports and provided advisory consultations to various entities across government. In particular, we finalized our own 2007-08 Annual Report and 2008-09 Annual Budgets, and undertook a few special investigations at the request of individuals and/or agencies. Due to their sensitivity we have not released some of these reports into the public domain. We also began gathering information for potential future value-for-money audits.

Investigations & Reports not started:

There were two projects budgeted for, but not started during 2008-09. These projects were ***the Auditor General's Reports on the Government's 2005/06 and 2006/07 financial and output statements***. These Reports have not been started as the audits of the Ministry/Portfolio financial and output statements and the consolidated financial statement of Government have not been finalized as of 30 June 2009. There have been significant delays by the Ministries/Portfolios of Entity & Executive financial statements and Statements of Outputs Delivered. As at 30 June 2009, some Ministries/Portfolios had submitted their Annual Reports. Many however lacked the required audit schedules. Few Ministries/Portfolios have provided their Statements of Outputs Delivered for audit. The Government has not provided us with a plan or a timetable for the production of these reports. We will continue reporting on this protracted delay in the 2009 update on the State of Financial Accountability Reporting.

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

In 2008-09, we submitted four reports to the Speaker. These reports became public documents when submitted to the Speaker of the Legislative Assembly under section 77(3) of the Standing Orders of the Legislative Assembly.

The Office of the Auditor General provides assistance to the Legislative Assembly and its Committees in a number of ways. We do this by providing briefing materials to the Public Accounts Committee ("PAC") prior to and during its meetings. There were five PAC meetings held during year; however, there were no reports issued by the Committee.

As at 30 June 2009 there are ten audit reports outstanding for PAC to review. Three of these reports are not yet public documents as they fall under the previous Standing Orders. Outlined below are the reports to be reviewed by PAC (reports that are not public documents are highlighted in bold below):

1. **Special Report of the Auditor General on Caribbean Utilities Company Ltd – Summary Report October 2003**, submitted March 2005 - PAC review completed and this Report subsequently became a public document on July 1, 2009.
2. **Special Report of the Auditor General on Affordable Housing Initiative**, submitted in March 2005 – The PAC review has not started. This is not a public document.
3. **Auditor General’s Report on Government Financial Statements – June 2004**, submitted December 2005. The PAC review has been completed and PAC report is finalized, but has not been tabled in the Legislative Assembly. This is not a public document.
4. *The Special Report of the Auditor General on the Royal Watler Cruise Terminal Capital Project*, submitted to the Speaker in May 2006. The PAC review has been completed and a PAC report is being drafted. This Report is a public document.
5. *Special Report of the Auditor General on Cayman Islands Government Property Insurance Settlement – Post Ivan*, submitted to the Speaker in February 2007 – The PAC review has not started; however, this Report is a public document.
6. *Special Report of the Auditor General on The Review of the Debt Financing Arrangements for Boatswain’s Beach*, submitted to the Speaker in July 2007 - The PAC review has not started; however, this Report is a public document.
7. *Special Report of the Auditor General on the State of Financial Accountability Reporting*, submitted to the Speaker in July 2008 - The PAC review has not started; however, this Report is a public document.
8. *Special Report of the Auditor General on the Scrap Metal Tender and Contract with Matrix International Inc.*, submitted to the Speaker in September 2008- The PAC review has not started; however, this Report is a public document.
9. *Special Report of the Auditor General on the Purchase of a Helicopter by the Royal Cayman Islands Police*, submitted to the Speaker in October 2008 - The PAC review has not started; however, this Report is a public document.
10. *Special Report of the Auditor General on the Review of the Gasoline Charges Incurred by Pedro St. James and the Policies and Procedures in Place for the Period of July 2003 to April 2007*, submitted to the Speaker in January 2009 - The PAC review has not started; however, this Report is a public document.

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

The Office of the Auditor General provides support services to the National Hurricane Committee and Hazard Management Cayman Islands as these are significant risks that Government needs to manage well in the event of a disaster striking the Cayman Islands. We participate in the National Hurricane Committee's annual exercises and preparation meetings. We also provide management oversight to the Support Services Cluster and Essential Relief Services and International Aid Management sub-committee. To facilitate our work we are putting in place memoranda of understanding with the Police, Customs and the Port Authority to help with the coordination of international aid management. In the event of a disaster, we assist in the tracking of aid when it is designated for Government use. In the past we have received training to use the Logistics Support System, which is a software program used to track the international aid items. Our aim is to continue to provide this training once a year to keep the staff knowledgeable of the software due to its limited use.

We assisted the National Emergencies Operations Centre when Hurricane Paloma struck Cayman Brac & Little Cayman in November of 2008. We provided support at several meetings and assisted with relief efforts in Cayman Brac.

Finally, we updated our own Hazard Management plan annually to consider any new risks and ensure that we are prepared for potential threats.

### Ownership Performance

In 2008-09, we had an operational deficit of \$168,000 even though our goal was to break even. This resulted from less revenues being billed. The main reason for revenues being less than we expected were the continued delays by the Government entities in providing us with auditable financial statements. We had expected that the Government would improve its performance in 2008-09, but this was not the case. Our revenues continue to be affected by these delays and, in other cases, entities submitted poorly prepared financial statements and audit schedules to our auditors. This has impacted our cash flow situation.

During 2008-09, the Government requested all ministries and portfolios to reduce spending by 10% from the original budgeted levels. We are pleased to report that we exceeded these targets and reduced our actual expenses by 21.3% from the original budget as described in Table 1 below. Due to the delays in the submission of financial statements for audit, we did not hire consultants to clear the back log of audits as we had planned. This explains the significant decrease in professional fees that are included as part of supplies and consumables expenses.

**Table 1: Comparison of Actual to Supplemental Budget & Original Budget**

	2008/9 Actual \$000	2008/9 Supplemental Budget \$000	Actual Change From Supplemental Budget %	2008/9 Original Budget \$000	Actual Change From Original Budget %
<b>Revenue</b>					
Audit Services to Public Accounts Committee	573	674	(15.0%)	750	(23.6%)
Audit Services to Other Government Agencies	1,447	1,831	(21.0%)	2,027	(28.6%)
Interest Revenue	-	4	(100%)	4	(100%)
<b>Total Operating Revenue</b>	<b>2,020</b>	<b>2,509</b>	<b>(19.5%)</b>	<b>2,781</b>	<b>(27.4%)</b>
<b>Operating Expenses</b>					
Personnel costs	1,792	1,892	(5.3%)	1,817	(1.4%)
Supplies and consumables	362	573	(36.8%)	920	(60.7%)
Capital charge	16	24	(33.3%)	24	(33.3%)
Depreciation	17	20	(15.0%)	20	(15.0%)
Other operating expenses	1	-	100%	-	100%
<b>Total Operating Expenses</b>	<b>2,188</b>	<b>2,509</b>	<b>(12.8%)</b>	<b>2,781</b>	<b>(21.3%)</b>

More detailed financial information is contained in our financial statements (see pages 29 to 45).

Our human resources were adequately maintained during the year, even though there have been several changes in personnel over the past fiscal year. We achieved this result through aggressive recruiting and maintaining our Office's reputation as a high quality professional organization.



**Part A**

**Outputs Delivered During the Year**

## 2. Outputs Delivered

AUD-02		Investigations and Reports		
<b>Description</b> One audit report on the Government's annual financial statements.  Investigations into and Audit Reports on: <ul style="list-style-type: none"> <li>• Management of executive transactions</li> <li>• Financial Management of Entire Public Sector or of any Ministry, Portfolio, Statutory Authority or Government Company</li> <li>• Economy, efficiency and effectiveness (value-for-money)</li> <li>• Information Systems Controls</li> </ul>				
Measures		2008/9 Actual	2008/9 Supplemental Budget	Annual Variance
<b>Quantity</b>	<ul style="list-style-type: none"> <li>• Special Report on the State of Financial Accountability Reporting</li> <li>• Special Report on the Scrap Metal Tender and Contract with Matrix International Inc.</li> <li>• Special Report on the Purchase of a Helicopter by the Royal Cayman Islands Police</li> <li>• Special Report on Pedro St. James – Review of Gasoline Charges July 2003 – April 2007</li> <li>• Special Report on the review of expenditures for Operation Tempura and Cealt</li> <li>• Special Report on Boatswain's Beach Development Project</li> <li>• Special Report on the State of Financial Accountability Reporting – Update Report</li> <li>• Specialist Technical advice to Government Organizations</li> <li>• Minor Reports – advisory &amp; consultations</li> </ul> <p><b><u>Completion of Work in Progress Brought Forward 2007-08</u></b></p> <ul style="list-style-type: none"> <li>• Auditor General's Report on Government Financial Statements Year Ended 30 June 2007</li> <li>• Auditor General's Report on Government financial statements Year Ended 30 June 2006</li> <li>• Auditor General's Report on Government financial statements Year Ended 30 June 2005</li> <li>• Special Report on Specific Government Activities in Cayman Brac and Little Cayman</li> <li>• Special Report on Customs Waivers and Duties</li> </ul>	100% 100% 100% 100% 95% 75% 30% 281.75 hours 5-100%	100% 100% 100% 100% 100% NEW NEW 10-100%	- - - - (5%) (25%) 30% 281.75 hours (0 - 5%)
<b>Quality</b>	Reports to be reviewed by the Audit Manager and/or the Auditor General and "agreed by client".  Obtain client's response, if any, on the report and amend report if necessary	100% 100%	100% 100%	0% 0%

	Issued report to be signed off by Audit Manager and/or Auditor General	100%	100%	0%
<b>Timeliness</b>	<ul style="list-style-type: none"> <li>• Special Report on the State of Financial Accountability Reporting</li> <li>• Special Report on the Scrap Metal Tender and Contract with Matrix International Inc.</li> <li>• Special Report on the Purchase of a Helicopter by the Royal Cayman Islands Police</li> <li>• Special Report on Pedro St. James – Review of Gasoline Charges July 2003 – April 2007</li> <li>• Special Report on the review of expenditures for Operation Tempura and Cealt</li> <li>• Special Report on Boatswain's Beach Development Project</li> <li>• Special Report on the State of Financial Accountability Reporting – Update Report</li> <li>• Specialist Technical advice to Government Organizations</li> <li>• Minor Reports – advisory &amp; consultations to be completed throughout the year</li> </ul> <p><b><u>Completion of Work in Progress Brought Forward 2007-08</u></b></p> <ul style="list-style-type: none"> <li>• Auditor General's Report on Government Financial Statements Year Ended 30 June 2007</li> <li>• Auditor General's Report on Government financial statements Year Ended 30 June 2006</li> <li>• Auditor General's Report on Government financial statements Year Ended 30 June 2005 to be completed by June 2009</li> <li>• Special Report on Specific Government Activities in Cayman Brac and Little Cayman by June 2009</li> <li>• Special Report on Customs Waivers and Duties to be completed by June 2009</li> </ul>	<p>100%</p> <p>100%</p> <p>100%</p> <p>100%</p> <p>0%</p> <p>0%</p> <p>0%</p> <p>100%</p> <p>0-100%</p> <p>0%</p> <p>0%</p> <p>0%</p> <p>0%</p> <p>0%</p> <p>0%</p>	<p>100%</p> <p>100%</p> <p>100%</p> <p>100%</p> <p>100%</p> <p>100%</p> <p>NEW</p> <p>NEW</p> <p>0-100%</p> <p>0%</p> <p>0%</p> <p>100%</p> <p>100%</p> <p>100%</p> <p>100%</p>	<p>-</p> <p>-</p> <p>-</p> <p>-</p> <p>(100%)</p> <p>(100%)</p> <p>0%</p> <p>100%</p> <p>0%</p> <p>(100%)</p> <p>(100%)</p>
<b>Location</b>	3 <sup>rd</sup> Floor, Anderson Square, George Town Legislative Assembly Building, Grand Cayman Auditee Premises – Cayman Islands	100%	100%	0%
	<b>Cost (of producing the output)</b>	<b>\$290,134</b>	<b>\$450,000</b>	<b>(\$159,866)</b>
	<b>Price (paid by Cabinet for the output)</b>	<b>\$484,052</b>	<b>\$450,000</b>	<b>\$34,052</b>
<b>Related Broad Outcomes:</b>				
10. Open, Transparent and Efficient Public Administration				
11. Sound Fiscal Management				

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

### **Quantity Percentage's Explained:**

Based on our experiences to date in performing value for money audits and investigations, we have broken the process into 4 main stages. The 4 stages, and the usual percentages of the total effort expended in each stage, are explained below:

**0 - 70%.** During this first stage of a value for money audit or investigation, we will have planned the audit, held client meetings, documented the client's systems, tested the systems, analysed the data, and made preliminary evaluations and conclusions. The conclusion of this phase is generally an audit file that documents the work to date. This phase usually consumes 70% of the total resources devoted to the project.

**71 - 85%.** At this stage of the audit, a Manager and the Auditor General will review the fieldwork documentation to ensure preliminary evaluations and conclusions are consistent with the audit evidence obtained. The first draft of the value for money or investigative report will then be written. At the 85% completion mark we will have issued the first draft report to the client for comments.

**86 - 90%.** This stage of the audit will involve discussions with the client on the draft report. At 90% completion, we will have received our first response back from the client and incorporated the client's comments into the second draft of the report.

**91-100%.** This is the final stage of the audit where we will finalize the report, along with client comments as appropriate, and prepare the final versions of the report to be issued to the Legislative Assembly, the Governor, Statutory Authority and/or Government Company.

Specialist technical advice provided to Government Organizations is measured by the number of hours the Office of the Auditor General staff provides.

### **Quality Percentage's Explained:**

For the 2008-09 year we indicated quality by the percentage in which we expect all reports issued by the Office of the Auditor General are reviewed by an Audit Manager and/or the Auditor General and "agreed by client".

We define "agreed by client" to mean that we have provided the opportunity to the client to comment on a draft report that we plan to issue. "Agreed by client" does not presume that the client will agree to the findings and conclusions of the report, but that the client has been provided the opportunity to comment on the report, which can impact our final report to be issued and/or the client's responses may be included in the body of the final report. We believe this provides a more fair and balanced report.

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

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

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

In measuring the percentage in obtaining the client's response, if any, on the report and amend the report if necessary we have defined the percentages as follows:

**0%** - indicates we did **not** seek the client's response to the report and/or change the report as a result of the client's response.

**100%** - indicates we did seek the client's response to the report made changes to the report as appropriate as a result of the client's response.

In measuring the percentage of Reports to be signed off by the Audit Manager and/or Auditor General we used the following criteria:

**0%** - indicates the Audit Manager and/or the Auditor General did **not** sign off on the report.

**100%** - indicates the Audit Manager and/or the Auditor General did sign off on the report.

Timeliness Percentage's Explained:

For the 2008-09 year we indicated timeliness by the percentage in which we expected to produce the actual report, or when the fieldwork would be completed based on quantity percentage completed. Therefore the following percentage's should be applied:

- 0% - report was not issued as expected or the fieldwork was not completed in a timely manner.
- 100% - report issued.

There should be no percentage disclosed between 0% and 100% as 0% represents the timeline was not met and 100% represents timeline was met.

In regards to providing specialist technical advice to Government Organizations, timeliness is measured by:

- 0% - Advice not provided in the timeframe expected by the Government Organization.
- 100% - Advice provided in the timeframe expected by the Government Organization.

Location Percentage's Explained:

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

- 0% - Fieldwork not performed at the Office of the Auditor General or client's premises.
- 100% - Fieldwork performed at the Office of the Auditor General or client's premises.

Financial Measures Explained:

The bases for financial measures were as follows:

- i) Actual revenue - as recorded for reports included for this output in the accounting records of Office of the Auditor General ("OAG") for the year ended June 30, 2009.
- ii) Actual costs – as recorded for reports included for this output in the accounting records of the OAG for direct costs and indirect costs allocated on the basis described in Part 8 of the Financial Regulations (2008 Revision) for the year ended June 30, 2009.
- iii) Budgeted cost – as recorded in the Supplementary Annual Budget Statement 2008/9 for the OAG.

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

Quantity:

While we plan to complete certain audits and investigations during the year, typically we receive other requests which can change our priorities. In 2008-09 we had anticipated completing 3 reports that we had started in the previous year. In July 2008, August 2008 and January 2009 we finalized and issued the following 3 reports respectively: *Special Report of the Auditor General on the State of Financial Accountability Reporting*; *Special Report of the Auditor General on The Scrap Metal Tender and Contract with Matrix International Inc*; *Special Report of the Auditor General on Pedro St. James – Review of Gasoline Charges July 2003 – April 2007*. In addition, we received a request from HE The Governor and completed the *Special Report of the Auditor General on the Purchase of a Helicopter by the Royal Cayman Islands Police*.

In our Supplemental Budget we anticipated completing 9 Reports during 2008-09 as we budgeted 100% completion. Some of the work carried over from the 2007-08 year has not progressed as quickly as we would have liked, especially in the area of our Annual Reports on Government financial statements.

Timeliness:

We anticipated issuing nine reports during the 2008-09 year as we budgeted 100% completion. However, we only issued four reports in the current fiscal year and therefore we were not timely in regards to the other five reports. These five reports continue to be a work in progress and are at various stages of completion.

There has been a substantial delay in the Government's Financial & Output Statements for the Years Ended 30 June 2005, 2006 and 2007. We do not foresee these three reports being issued in the foreseeable future.

Cost & Price Paid

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

AUD-03		Advice, Assistance and Reports to the Legislative Assembly and its Committees		
Description				
Advice and Assistance to the Public Accounts Committee ("PAC") - includes attendance at PAC meetings and support for the preparation of PAC reports. The audit reports are referred to the PAC for their review by the Speaker of the Legislative Assembly. Once their review process is complete, a report is prepared and it is tabled in the Legislative Assembly. We participate in all aspects of this process.				
Measures		2008/9 Actual	2008/9 Supplemental Budget	Annual Variance
Quantity				
	○ Special Report - Caribbean Utilities Company Ltd - Summary Report (submitted to PAC March 2005)	95%	0%	95%
	○ Special Report - The Affordable Housing Initiative (submitted to PAC March 2005)	0%	0%	0%
	○ Auditor General's Report on Government financial statements - June 2004 (submitted to PAC December 2005)	95%	100%	(5%)
	○ Special Report – The Royal Water Cruise Terminal Capital Project (submitted to PAC May 2006)	85%	75-90%	10%-(5%)
	○ Special Report – CI Government Property Insurance Settlement – Post Ivan (submitted to PAC February 2007)	0%	0-25%	(0-25%)
	○ Special Report - The Review of the Debt Financing Arrangements for Boatswain's Beach (submitted to PAC July 2007)	0%	0-25%	(0-25%)
	○ Special Report - The State of Financial Accountability Reporting (submitted to PAC July 2008)	0%	0%	0%
	○ Special Report - The Scrap Metal Tender and Contract with Matrix International Inc. (Submitted to PAC August 2008)	0%	0%	0%
	○ Special Report - the Purchase of a Helicopter by the Royal Cayman Islands Police (Submitted to PAC October 2008)	0%	0%	0%
	○ Special Report - Pedro St. James – Review of Gasoline Charges July 2003 – April 2007 (Submitted to PAC January 2009)	0%	0%	0%
	○ Boatswain's Beach Development Project – VFM Audit (expected to be submitted by April 2009 – not submitted to PAC)	0%	0%	0%
	○ Special Police Investigation Team – Operation Tempura – Review of Expenditures (expected to be submitted by June 2009 – not submitted to PAC)	0%	0%	0%
	○ Auditor General's Report on Government financial statements Year Ended 30 June 2005 (expected to be submitted June 2009 – not submitted to PAC)	0%	0%	0%
	○ Special Report – Customs Waivers and Duties (expected to be submitted by June 2009 – not submitted to PAC)	0%	0%	0%

	PAC Briefing and Evidence Sessions attended	5 sessions	10-15 sessions	(5-10 sessions)
<b>Quality</b>	PAC Reports to be reviewed by the Audit Manager and/or the Auditor General.	100%	100%	0%
	Provision of Committee support services to the satisfaction of the PAC.	100%	100%	0%
<b>Timeliness</b>	Advice and Assistance to be provided within the timeframe required and agreed with the PAC	100%	100%	0%
	Auditor General Reports become public documents within one week of submission to the Honourable Speaker of the Legislative Assembly	75%	100%	(25%)
	Public Availability through website within 2 days after becoming a public document.	100%	100%	0%
<b>Location</b>	Office of the Auditor General, 3 <sup>rd</sup> Floor Anderson Square, George Town Legislative Assembly Building, Grand Cayman	100%	100%	0%
<b>Cost (of producing the output)</b>		<b>\$9,854</b>	<b>\$150,000</b>	<b>(\$140,146)</b>
<b>Price (paid by Cabinet for the output)</b>		<b>\$23,543</b>	<b>\$150,000</b>	<b>(\$126,457)</b>
<b>Related Broad Outcomes:</b>				
10. Open, Transparent and Efficient Public Administration				
11. Sound Fiscal Management				

**Explanation of Percentages used in Output Statement AUD 3 – Advice and Assistance to the Public Accounts Committee (PAC) including attendance at PAC meetings and PAC Reporting:**

**Quantity Percentage's Explained:**

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

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

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

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

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

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

Quality Percentage's Explained:

The PAC draft reports are to be reviewed by the Audit Manager and/or the Auditor General.

0% - this was not performed

100% - performed

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

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

100% - PAC confirmed that support services were to its satisfaction

Timeliness Percentage's Explained:

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

100% - Advice and Assistance provided within the timeframe required and agreed with the PAC.

In regards to reports being made publicly available in a timely manner, the percentage is based on the number of reports made available. For example, if two reports were made public during the current fiscal year, but only 1 report was made publicly available within the timeframe anticipated then the timeliness percentage would be recorded as 50%.

The basis for the timeliness measures are as follows:

0% - Auditor General Reports did not become publicly available within one week of submission to the Honourable Speaker of the Legislative Assembly.

100% - Auditor General Reports are publicly available within one week of submission to the Honourable Speaker of the Legislative Assembly.

0% - Auditor General Reports did not become publicly available within two days on the Government website.

100% - Auditor General Reports are publicly available within two days on the Government website.

Location Percentage's Explained:

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

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

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

Financial Measures Explained:

The bases for financial measures were as follows:

- i) Actual revenue - as recorded for reports included for this output in the accounting records of Office of the Auditor General ("OAG") for the year ended June 30, 2009.
- ii) Actual costs – as recorded for reports included for this output in the accounting records of the OAG for direct costs and indirect costs allocated on the basis described in Part 8 of the Financial Regulations (2008 Revision) for the year ended June 30, 2009.
- iii) Budgeted cost – as recorded in the Supplementary Annual Budget Statement 2008/9 for the OAG.

**Explanation of Variances for Output Statement AUD 3 – Advice and Assistance to the Public Accounts Committee (PAC) including attendance at PAC meetings and PAC Reporting:**

Quantity

There were five PAC meetings held during 2008-09. In our supplementary budget, we planned to attend between 10-15 meetings to deal with the outstanding reports. In addition, we planned to complete one other report. The PAC did not prepare any reports during the year and, except for meeting to review the Special Report - Caribbean Utilities Company Ltd and the Auditor General's Report on the Government financial statements - June 2004 (submitted to PAC December 2005), there was no other activity.

As at June 30, 2009, the PAC had not started their review of seven of the reports submitted. Therefore, we have recorded 0% in the actual column for these reports. In addition, we had expected to submit four other reports to the PAC during the year. These were not submitted and therefore we recorded 0% in the actual column for these reports.



**Explanation of Variances for Output Statement AUD 3 – Advice and Assistance to the Public Accounts Committee (PAC) including attendance at PAC meetings and PAC Reporting (continued):**

**Timeliness**

Three of the four (75%) Special Reports submitted to the Honorable Speaker of the Legislative Assembly were made a public document within one week of submission. The Special Report on the State of Financial Accountability Reporting was not made a public document within one week of submission to the speaker as there were was a misunderstanding of whether the Report was distributed to all Members.

**Cost & Price Paid**

We had anticipated attending more PAC meetings and briefing sessions, and therefore are significantly under budget for this activity.

AUD 8		Support Services to the National Hurricane Committee and Hazard Management		
Description				
Advice and assistance to the National Hurricane Committee and Hazard Management Cayman Islands.				
Measures		2008/9 Actual	2008/9 Supplemental Budget	Annual Variance
<b>Quantity</b>	<ul style="list-style-type: none"> <li>Memo of Understanding (MOU) updated annually for coordination of National Hurricane / international aid management resources</li> <li>Attend National Hurricane Committee's (NHC) annual preparation meetings</li> <li>Attend National Hurricane Committee / International Aid Management (IAM) meetings</li> <li>Training session on Logistics Support System (LSS) for distribution of international aid to be attended by Audit staff.</li> <li>Updating Hazard Management Plan Annually</li> <li>Provide relief support services for disaster</li> </ul>	0 3 18 0 1 1	3 1 24 1 1 1	(3) 2 (6) (1) - -
<b>Quality</b>	<ul style="list-style-type: none"> <li>MOU are agreed to and signed off by the other party and Auditor General</li> <li>Attendance and participation in annual NHC preparation meetings and other NHC/IAM meetings at an acceptable level to the NHC Chair</li> <li>LSS Training session to be provided by outside expert</li> <li>Hazard Management Plan accepted by Hazard Management Cayman Islands.</li> <li>Relief Support services for disaster provided at an acceptable level of the Director of Hazard Management Cayman Islands</li> </ul>	0% 100% 0 100% 100%	100% 100% 100% 100% Not budgeted	(100%) - (100%) - 100%
<b>Timeliness</b>	<ul style="list-style-type: none"> <li>MOU signed off by June 15</li> <li>NHC annual preparation meeting held in May/June</li> <li>NHC / IAM meetings held through out the year</li> <li>LSS training session to be held in May</li> <li>Hazard Management Plan submitted by May 31</li> <li>Relief support services provided within 2 days of disaster</li> </ul>	0% 100% 100% 0% 100% 100%	100% 100% Not budgeted 100% 100% Not budgeted	(100%) - 100% (100%) - 100%
<b>Location</b>	Cayman Islands	100%	100%	0%
<b>Cost (of producing the output)</b>		\$40,740	\$74,000	(\$33,260)
<b>Price (paid by Cabinet for the output)</b>		\$65,282	\$74,000	(\$8,718)
<b>Related Broad Outcomes:</b>				
1. Deal with the aftermath and lessons from hurricane Ivan				

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

**Quantity Percentage's Explained:**

The quantities are measured by a simple count of:

- i) number of the memorandums updated and signed off annually,
- ii) number of meetings attended,
- iii) training sessions held,
- iv) hazard management plan updated, and
- v) number of times relief support services are provided

**Quality Percentage's Explained:**

The quality percentage is defined for each area as follows:

- i) Memos of Understanding are agreed to and signed off by the other party and Auditor General
  - 0% - not signed off,
  - 100% signed off by both parties
- ii) Attendance and participation in annual NHC preparation meetings and other NHC/IAM meetings at an acceptable level to the NHC Chair
  - 0% - attendance and participation in NHC preparation meetings and other NHC/IAM meetings not at an acceptable level to the NHC Chair
  - 100% attendance and participation in NHC preparation meetings and other NHC/IAM meetings at an acceptable level to the NHC Chair
- iii) LSS Training session to be provided by outside expert
  - 0% - training session not held and/or provided by an outside expert
  - 100% - training session held and/or provided by an outside expert
- iv) Hazard Management Plan accepted by the Hazard Management Cayman Islands.
  - 0% - hazard management plan not accepted by the Hazard Management Cayman Islands
  - 100% - Hazard management plan accepted by the Hazard Management Cayman Islands
- v) Relief Support services for disaster provided at an acceptable level of the Director of Hazard Management Cayman Islands
  - 0% - relief support services for disaster not provided at an acceptable level to the NHC Chair
  - 100% relief support services for disaster provided at an acceptable level to the NHC Chair

**Timeliness Percentage's Explained:**

For 2008-09, we assessed timeliness by percentages for the dates we expected:

- i) MOU's to be signed,
- ii) NHC annual meetings to be held,
- iii) NHC / IAM meetings to be held
- iv) LSS Training to be held
- v) Hazard Management Plan was to be submitted

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

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

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

Location Percentage's Explained:

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

0% - work **not** performed in the Cayman Islands.

100% - work performed in the Cayman Islands.

Financial Measures Explained:

The bases for financial measures were as follows:

- i) Actual revenue - as recorded for reports included for this output in the accounting records of Office of the Auditor General ("OAG") for the year ended June 30, 2009.
- ii) Actual costs – as recorded for reports included for this output in the accounting records of the OAG for direct costs and indirect costs allocated on the basis described in Part 8 of the Financial Regulations (2008 Revision) for the year ended June 30, 2009.
- iii) Budgeted cost – as recorded in the Supplementary Annual Budget Statement 2008/9 for the OAG.

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

Quantity

We did not update any of the Memoranda of Understanding (MOU) for coordination of National Hurricane international aid management resources during the year. These MOU's were to be with the Port Authority, Customs, and the Police. In addition, we did not provide training on the LSS for audit staff. We attended two more annual preparation hurricane meetings than we had planned. We also provided relief support for Hurricane Paloma in Cayman Brac.

Quality

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

Timeliness:

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

The annual preparation meetings were held in May 2009 and we were in attendance. We also completed our Hazard Management plan in a timely manner submitted it before the deadline.

Cost & Price Paid

We planned to complete the MOUs, hold more meetings, and the LSS training. These did not materialize and therefore, we were under-budget.

### 3. Payment Arrangements

Public Accounts Committee ("PAC") will pay the Office of the Auditor General for delivery of the outputs described in Part A.

Payment is made on the basis of an invoice provided monthly to the Public Accounts Committee. The invoice contains sufficient evidence of the outputs delivered for the PAC Chairman to be able to satisfy himself that the outputs have in fact been delivered.

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

The expected amount of each invoice for outputs to be delivered during the year is outlined in the following table.

**Table 2: Expected Versus Actual Invoice Profile**

MONTH	EXPECTED AMOUNT OF INVOICE FOR OUTPUTS SUPPLIED: \$674,000							
	Actual AUD 2	Revised Budget AUD 2	Actual AUD 3	Revised Budget AUD 3	Actual AUD 8	Revised Budget AUD 8	Actual Total	Revised Budget Total
July	\$47,773	\$47,773	\$3,180	\$3,180	\$2,005	\$2,005	\$52,958	\$52,958
August	\$34,115	\$34,115	\$2,895	\$2,895	\$6,405	\$6,405	\$43,415	\$43,415
September	\$47,330	\$47,330	\$5,653	\$5,653	\$2,365	\$2,365	\$55,348	\$55,348
October	\$64,350	\$64,350	\$0	\$0	\$0	\$0	\$64,350	\$64,350
November	\$12,487	\$12,487	\$4,065	\$4,065	\$43,740	\$43,740	\$60,292	\$60,292
December	\$23,055	\$23,055	\$0	\$0	\$2,624	\$2,624	\$25,679	\$25,679
January	\$27,775	\$27,775	\$2,798	\$2,798	\$2,710	\$2,710	\$33,283	\$33,283
February	\$28,468	\$28,468	\$0	\$0	\$0	\$0	\$28,468	\$28,468
March	\$45,810	\$55,000	\$0	\$39,000	\$180	\$0	\$45,990	\$94,000
April	\$61,747	\$38,757	\$0	\$35,000	\$2,560	\$4,151	\$64,307	\$77,908
May	\$36,567	\$40,890	\$270	\$25,000	\$2,693	\$5,000	\$39,530	\$70,890
June	\$54,575	\$30,000	\$4,682	\$32,409	\$0	\$5,000	\$59,257	\$67,409
<b>TOTAL</b>	<b>\$484,052</b>	<b>\$450,000</b>	<b>\$23,543</b>	<b>\$150,000</b>	<b>\$65,282</b>	<b>\$74,000</b>	<b>\$572,877</b>	<b>\$674,000</b>

**Part B**

**Ownership Performance Achieved During the Year**

## 4. Nature and Scope of Activities

### Approved Nature of Activities

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

### Scope of Activities:

1. Financial Statement attest services for:
  - ◆ The Entire Public Sector (EPS) financial statements
  - ◆ The financial statements of Statutory Authorities, Government companies and certain non-public funds.
2. Special investigation services and the production of Auditor General Reports to the Legislative Assembly and/or to management into:
  - ◆ Management of executive transactions
  - ◆ Financial management of EPS or of any Ministry, Portfolio, agency or Statutory Authority
  - ◆ Economy, efficiency, effectiveness in the way any Ministry, Portfolio, agency or Statutory Authority has used its resources in discharging its functions
  - ◆ Information systems audits
  - ◆ Accounting and other specialist technical advice to Chief Officers
  - ◆ Investigations into the financial management or affairs of persons, companies and other bodies in the public interest at the request of Public Accounts Committee or the Governor.
3. Enhancement of public accountability through assistance and advice to the Public Accounts Committee
4. Support services to the National Hurricane Committee and Hazard Management Cayman Islands through advice and assistance when needed.

### Customers and Location of Activities

Customers: The Legislative Assembly, the Public Accounts Committee.  
Audit Clients: All Ministries/Portfolios, all Statutory Authorities and Government Companies.  
Locations: Office of the Auditor General, 3<sup>rd</sup> Floor Anderson Square, George Town, and/or Client premises.

### Compliance during the Year

We provided independent audit services to the Legislative Assembly during the year of 2008-09. The nature and scope of the activities are regulated by the *Public Management and Finance Law, (2005 Revision)*. We are pleased to report that our scope of activities for the year have complied with our mandate in all significant respects.

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

## 5. Strategic Ownership Goals

The key strategic ownership goals for the Office in 2008-09 and the subsequent two years are as follows:

- ◆ To develop and strengthen the Office's human resource capability in order to provide an effective and efficient audit service and to prepare for the challenges of the Financial Management Initiative (FMI).
- ◆ To ensure that we meet the needs and expectations of our stakeholders by focusing our resources on matters offering greatest potential to improve performance and accountability.
- ◆ To continuously improve our business management through strategic planning to identify and give priority to the most important risks.
- ◆ To enhance the independence of the Office through greater financial and operational autonomy.
- ◆ To enhance the effectiveness of public accountability through the release of relevant and timely audit reports to all stakeholders.

### Achievement during the Year

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

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



## 6. Ownership Performance Targets

### 6.1 Financial Performance

Financial Performance Measures	2008/9 Actual \$	2008/9 Supplemental Budget \$	Annual Variance \$
Revenue from Public Accounts Committee	572,877	674,000	(101,123)
Revenue from ministries, portfolios, statutory authorities, government companies	1,447,246	1,831,000	(383,754)
Revenue from others	-	4,000	(4,000)
Surplus/deficit from outputs	-	-	-
Ownership expenses	-	-	-
<b>Operating (Deficit)/Surplus</b>	<b>(167,422)</b>	<b>-</b>	<b>(167,422)</b>
Net Assets/Equity	206,061	405,000	(198,939)
Cash flows from operating activities	(38,257)	117,000	(155,257)
Cash flows from investing activities	(23,370)	(25,000)	1,630
Cash flows from financing activities	-	-	-
Change in cash balances	(61,627)	92,000	(153,627)

#### Explanation of Variances:

Our revenues for the year were less than our budget by a total of \$484,877 (\$101,123 + \$383,754). The reason for this variance was the significant delays by Government entities providing us auditable financial statements and audit schedules on a timely basis. These delays created inefficiencies on several of our audits and resulted in those audits coming in over budget for costs which we could not bill our clients. Our expenditures were than the budget, which limited the operating deficit to \$167,422. The overall net change in cash balances decreased by \$61,627.

Financial Performance Ratios	2008/9 Actual %	2008/9 Supplemental Budget %	Annual Variance %
Current Assets: Current Liabilities (Working Capital)	157%	253%	(96%)
Total Assets: Total Liabilities	183%	281%	(98%)

#### Explanation of Variances:

The current assets ratio to current liabilities ratio was less than budgeted as we did not budget to have a deficit. This significantly impacted our cash position has also impacted the ratio for total assets to total liabilities in a negative manner from budget.

However, the ratio in both cases indicates that we should be able to meet all of our current obligations as of 30 June 2009.

## 6.2 Maintenance of Capability

Human Capital Measures	2008/9 Actual	2008/9 Supplemental Budget	Annual Variance
Total full time equivalent staff employed	19	20	(1)
Staff turnover (%)			
Managers	25%	25%	(0%)
Professional and technical staff	17%	20%	(3%)
Clerical and labourer staff	0%	0%	0%
Average length of service (number of years in current position)			
Managers	5	5	-
Professional and technical staff	3.5	4	(.5)
Clerical and labourer staff	6.5	6.5	-
Changes to personnel management system:	1 Audit Manager Position to include VFM experience		

### Explanation of Variances:

During the year, three members of our professional staff left and at year end one position was still not filled. Due to a change in the management structure, one audit manager position came open for competition. The position required significant VFM audit experience. As a result of the competition, an audit manager was hired who had this experience.

Physical Capital Measures	2008/9 Actual	2008/9 Supplemental Budget	Annual Variance
Value of total assets	\$455,000	\$629,000	(\$174,000)
Asset replacements: total assets	5.1%	4.0%	1.1%
Book value of assets: initial cost of those assets	49%	41%	8%
Depreciation: cash flow on asset purchases	74%	80%	(6%)
Changes to asset management policies	None		

### Explanation of Variances:

Total assets were less than budget due to the significant decrease in our cash position.

<b>Major <u>New</u> Entity Capital Expenditures for the Year</b>	<b>2008/9 Actual \$</b>	<b>2008/9 Supplemental Budget \$</b>	<b>Annual Variance \$</b>
Computers (laptops & desktops)	\$7,600	9,000	(\$1,400)
Photocopier & Scanner & Printer	\$15,770	16,000	(\$230)

Explanation of Variances:

An older digital printer was replaced with a modern color photocopier, scanner and printer. In addition, five laptop computers & one desktop computer were purchased at a cost lower than budget.

<b>Major Entity Capital Expenditures continuing from previous years</b>	<b>2008/9 Actual \$</b>	<b>2008/9 Supplemental Budget \$</b>	<b>Annual Variance \$</b>
N/A			

Explanation of Variances:

We have no capital projects in progress.

### 6.3 Risk Management

Risk	Actual Action Taken During Year to Manage Risk	Planned Action to Manage Risk
<p>1.a Issuing an inappropriate audit opinion on government accounts, costed outputs and QRTL measures.</p> <p>1.b Inappropriate conclusions and advice to agencies drawn from interim audit attest work.</p>	<p><b>Internal activity:</b> Improved knowledge of business for all agencies and outputs.</p> <p>More emphasis given to risk-based audit planning.</p> <p>Further refine the output audit methodology for costing.</p> <p>Attempted greater focus on IT systems assurance, but did not have an IT auditor or staff during the year.</p> <p><b>External activity:</b> Invited CO and CFO participation in audit planning to ensure effective co-operation.</p>	Not Quantifiable
2. Natural Disaster	<p><b>Internal Activity:</b> Employee awareness of risk and taking necessary precaution to protect physical assets and important information.</p>	Not Quantifiable

Explanation of Variances:

Risks have been managed in a proper manner during the year as knowledge of business increased for all entities due to the audits of outputs within Ministries and Portfolios.

### 7. Equity Investments and Withdrawals

Equity Movement	2008/9 Actual \$	2008/9 Supplemental Budget \$	Annual Variance \$
Equity Investment from Cabinet into the Office of the Auditor General	-	-	-
Capital (Equity) Withdrawal by Cabinet from Office of the Auditor General	-	-	-

Explanation of Variances:

There were no equity investments or withdrawals from the Office of the Auditor General in 2008-09.

## **Appendix: Financial Statements for the Year ended 30 June 2009**

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Statement of Responsibility for Financial Statements

Statement of Financial Performance

Statement of Changes in Net Assets

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Statement of Contingent Liabilities

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## ***Office of the Auditor General***

### **STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS**

These financial statements have been prepared by the Office of the Auditor General in accordance with International Public Sector Accounting Standards and the requirements outlined in the *Public Management and Finance Law (2005 Revision)*.

I accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the International Public Sector Accounting Standards and the *Public Management and Finance Law (2005 Revision)*.

To the best of my knowledge the financial statements:

- (a) are complete and reliable;
- (b) fairly reflect the financial position as at 30 June 2009 and the financial performance for the year ended 30 June 2009;
- (c) comply with generally accepted accounting policies.



*Dan Duguay, MBA, FCGA*  
*Auditor General*  
*Office of the Auditor General*  
*October 27, 2009*

**OFFICE OF THE AUDITOR GENERAL**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR 30 JUNE 2009**  
(Expressed in Cayman Islands Dollars)

	2008/9 Actual	2008/9 Final Budget	2007/8 Actual
Note	\$000	\$000	\$000
<b>Revenue</b>			
Audit Services provided to Public Accounts Committee	573	674	568
Audit Services provided to other government agencies	1,447	1,831	1,568
Interest Revenue	-	4	3
<b>Total Revenue</b>	<b>2,020</b>	<b>2,509</b>	<b>2,139</b>
<b>Operating Expenses</b>			
Personnel costs	1,792	1,892	1,670
Supplies and consumables	362	573	456
Capital charge	16	24	22
Depreciation	17	20	20
Other operating expenses	1	-	1
<b>Total Expenses</b>	<b>2,188</b>	<b>2,509</b>	<b>2,169</b>
<b>(Deficit)/Surplus from activities</b>	<b>(168)</b>	<b>-</b>	<b>(30)</b>
(Losses)/Gains on disposal of non-current assets	-	-	(1)
<b>(Deficit)/Surplus before extraordinary items</b>	<b>(168)</b>	<b>-</b>	<b>(31)</b>
Extraordinary items	-	-	-
<b>Net (Deficit)/Surplus for the period</b>	<b>(168)</b>	<b>-</b>	<b>(31)</b>

The accounting policies and notes on pages 37 to 45 form part of these financial statements.

**OFFICE OF THE AUDITOR GENERAL  
STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30 JUNE 2009  
(Expressed in Cayman Islands Dollars)**

		<b>2008/9 Actual</b>	<b>2008/9 Final Budget</b>	<b>2007/8 Actual</b>
	<b>Note</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Opening balance net assets</b>		374	405	228
Net (deficit)/surplus for the period		(168)	-	(31)
Property revaluations		-	-	-
Investment revaluations		-	-	-
Net revaluations during the period		-	-	-
<b>Total recognised revenues and expenses</b>		<b>(168)</b>	<b>-</b>	<b>(31)</b>
Equity investment from Cabinet	10	-	-	177
Repayment of surplus to Cabinet		-	-	-
Capital withdrawal by Cabinet		-	-	-
<b>Closing balance net assets</b>		<b>206</b>	<b>405</b>	<b>374</b>

The accounting policies and notes on pages 37 to 45 form part of these financial statements.



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

	Note	2009 Actual \$000	2009 Final Budget \$000	2008 Actual \$000
<b>Current Assets</b>				
Cash and cash equivalents	4	70	224	132
Accounts receivable, work in progress & prepayments	5	320	343	522
<b>Total Current Assets</b>		<b>390</b>	<b>567</b>	<b>654</b>
<b>Non-Current Assets</b>				
Property, plant and equipment	6	65	62	59
<b>Total Non-Current Assets</b>		<b>65</b>	<b>62</b>	<b>59</b>
<b>Total Assets</b>		<b>455</b>	<b>629</b>	<b>713</b>
<b>Current Liabilities</b>				
Accounts payable	7	142	143	173
Employee entitlements	8	107	81	166
<b>Total Current Liabilities</b>		<b>249</b>	<b>224</b>	<b>339</b>
<b>Total Liabilities</b>		<b>249</b>	<b>224</b>	<b>339</b>
<b>NET ASSETS</b>		<b>206</b>	<b>405</b>	<b>374</b>
<b>NET ASSETS/EQUITY</b>				
Contributed capital		400	400	400
Accumulated (deficits)/surpluses		(194)	5	(26)
<b>TOTAL NET ASSETS/EQUITY</b>		<b>206</b>	<b>405</b>	<b>374</b>

The accounting policies and notes on pages 37 to 45 form part of these financial statements.

OFFICE OF THE AUDITOR GENERAL  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2009  
(Expressed in Cayman Islands Dollars)

	Note	2008/9 Actual \$000	2008/9 Final Budget \$000	2007/8 Actual \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts				
Audit services provided to Public Accounts Committee		645	749	473
Audit service provided to other government agencies		1,552	1,933	1,453
Audit services provided to others		-	-	8
Interest received		3	5	2
Payments				
Personnel costs		(1,837)	(1,942)	(1,583)
Suppliers		(378)	(605)	(436)
Capital Charge		(23)	(23)	(11)
Other payments		(1)	-	(1)
<b>Net cash flows from operating activities</b>	<b>9</b>	<b>(39)</b>	<b>117</b>	<b>(95)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of non-current assets		(23)	(25)	(12)
<b>Net cash flows from investing activities</b>		<b>(23)</b>	<b>(25)</b>	<b>(12)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Equity investment	10	-	-	177
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>-</b>	<b>177</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(62)</b>	<b>92</b>	<b>70</b>
Cash and cash equivalents at beginning of period		132	132	62
<b>Cash and cash equivalents at end of period</b>	<b>4</b>	<b>70</b>	<b>224</b>	<b>132</b>

The accounting policies and notes on pages 37 to 45 form part of these financial statements.

**OFFICE OF THE AUDITOR GENERAL**  
**STATEMENT OF COMMITMENTS**  
**AS AT 30 JUNE**  
(Expressed in Cayman Islands Dollars)

Type	One year or less	One to five years	Over five years	2009 Total	2008 Total
	\$000	\$000	\$000	\$000	\$000
<b>Capital Commitments</b>	-	-	-	-	-
Land and buildings	-	-	-	-	-
Other fixed assets	-	-	-	-	-
Other commitments [list separately if material]	-	-	-	-	-
<b>Total Capital Commitments</b>	-	-	-	-	-
<b>Operating Commitments</b>					
Non-cancellable accommodation leases	-	-	-	-	86
Other non-cancellable leases	-	-	-	-	-
Non-cancellable contracts for the supply of goods and services	-	-	-	-	-
Other operating commitments	-	-	-	-	-
<b>Total Operating Commitments</b>	-	-	-	-	<b>86</b>
<b>Total Commitments</b>	-	-	-	-	<b>86</b>

The accounting policies and notes on pages 37 to 45 form part of these financial statements.

**OFFICE OF THE AUDITOR GENERAL  
STATEMENT OF CONTINGENT LIABILITIES  
AS AT 30 JUNE  
(Expressed in Cayman Islands Dollars)**

**Summary of Quantifiable Contingent Liabilities**

	<b>2009 \$000</b>	<b>2008 \$000</b>
<b>Legal Proceedings and Disputes</b>		
None	-	-
<b>Total Legal Proceedings and Disputes</b>	<u>-</u>	<u>-</u>
<b>Other Contingent Liabilities</b>		
None	-	-
<b>Total Other Contingent Liabilities</b>	<u>-</u>	<u>-</u>
<b>Summary of Non-Quantifiable Contingent Liabilities</b>		
An ex-employee has filed a grievance with the Civil Service Appeals Commission for wrongful dismissal.	Unknown	None

The accounting policies and notes on pages 37 to 45 form part of these financial statements.

**OFFICE OF THE AUDITOR GENERAL  
STATEMENT OF ACCOUNTING POLICIES  
FOR THE YEAR ENDED 30 JUNE 2009**

**Background Information**

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

The Office of the Auditor General is located on the Third Floor, Anderson Square, Shedden Road, George Town, Grand Cayman. The Office has 19 employees (2008: 21).

**General Accounting Policies**

***Basis of preparation***

These financial statements have been prepared under the historical cost convention and in accordance with International Public Sector Accounting Standards (IPSASs) using the accrual basis of accounting.

These financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently to all years presented.

***Reporting Period***

The reporting period is the year ended 30 June 2009.

The 2008/09 1<sup>st</sup> supplemental budget (final budget for the Office) was approved by the Public Accounts Committee and the Legislative Assembly in March 2009 and is used as the budget amounts for these financial statements.

**Specific Accounting Policies**

***Revenue***

***Audit services revenue***

The Office of the Auditor General 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 attest work, other assurance work and special assignments 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.

***Interest revenue***

Interest revenue is recognised in the period in which it is earned.

***Expenses***

***General***

Expenses are recognised when incurred.

***Depreciation***

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

***Operating Leases***

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

***Capital Charges***

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

OFFICE OF THE AUDITOR GENERAL  
STATEMENT OF ACCOUNTING POLICIES  
FOR THE YEAR ENDED 30 JUNE 2009

**Specific Accounting Policies (continued)**

**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 Receivables*

Accounts receivables are recognised initially at fair value 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 receivables. Subsequent recoveries of amounts previously written off are recognized in future periods as revenue in the year in which it is collected.

*Work in Progress*

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

*Property, Plant and Equipment*

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

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

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

**Liabilities**

*Accounts Payable*

Accounts payable are recognised initially at fair value after allowing for credit notes and other adjustments.

*Employee Benefits*

a) *Annual Leave entitlement*

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

b) *Pension Obligations*

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

**OFFICE OF THE AUDITOR GENERAL  
STATEMENT OF ACCOUNTING POLICIES  
FOR THE YEAR ENDED 30 JUNE 2009**

**Specific Accounting Policies (continued)**

b) *Pension Obligations (continued)*

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

***Contributed Capital***

Contributed capital relates to equity injections for fixed asset acquisitions, working capital and initial start up cash of the Office, which is funded by the Cayman Islands Government.

***Foreign Exchange***

Monetary assets and liabilities denominated in foreign currencies are translated into Cayman Islands dollars at the exchange rate prevailing on the Statement of Financial Position date. Revenue and expense items denominated in foreign currencies are translated in Cayman Islands dollars at the exchange rate prevailing on the transaction date. Gains and losses on translation are included in the Statement of Financial Performance.

**OFFICE OF THE AUDITOR GENERAL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009  
(Expressed in Cayman Islands Dollars)**

**NOTE 1: PERSONNEL COSTS**

	<b>2008/9 Actual</b>	<b>2008/9 Final Budget</b>	<b>2007/8 Actual</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Salaries and wages (including employee pension contributions)	1,482	1,565	1,445
Health Insurance	155	156	101
Employer pension expense	85	89	78
Other personnel costs	70	82	46
<b>Total Personnel Costs</b>	<b>1,792</b>	<b>1,892</b>	<b>1,670</b>

**NOTE 2: SUPPLIES AND CONSUMABLES**

	<b>2008/9 Actual</b>	<b>2008/9 Final Budget</b>	<b>2007/8 Actual</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Supply of goods and services	128	260	158
Operating leases	92	92	90
Professional fees	73	109	136
Computer Hardware Maintenance	69	112	72
<b>Total Supplies and Consumables</b>	<b>362</b>	<b>573</b>	<b>456</b>

Official Travel

Included under the caption of supply of goods and services above is official travel. During 2008-09, the Office spent \$12,000 (2007-08: \$11,000) on official travel. This included business related trips to Cayman Brac in regards to financial statement audits, value-for-money audits and helping out after Hurricane Paloma; London – Maritime Authority financial statement audit; Bermuda – Commonwealth Auditor General's Conference; Sweden – INTOSAI Conference; and Puerto Rico – CAROSAI Conference.

Operating Leases

Operating leases for the year ending 30 June 2009 was \$92,000 (2008: \$90,000).

The Office occupies leased property on the third floor, Anderson Square, Shedden Road, George Town. The lease is for a period of five years which commenced on 1 July 2004. The details of the amounts committed in respect of this lease are included in the Statement of Commitments. An option exists to renew the lease for a further five years at an agreed upon open market rental rate. As at the date of approval of the financial statements, this option is being exercised and negotiations of the current lease are still ongoing.

In January 2008, the Office entered into a lease agreement with Mini Warehouse Two Limited on a month to month basis at a rental rate of \$520 per month for the secured storage of audit files and administration documents. The rental rate is to be increased on the anniversary date of the lease by a percentage equal to the increase in the Consumer Price Index.



**OFFICE OF THE AUDITOR GENERAL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009  
(Expressed in Cayman Islands Dollars)**

**NOTE 3: CAPITAL CHARGE**

A capital charge is payable to the Portfolio of Finance and Economics as required by the *Public Management and Finance Law, (2005 Revision)* section 41(5). The Financial Secretary annually sets the capital charge rate which was 5.95% for 2008-09 (2008: 5.95%). The capital charge is recorded semi-annually, on December 31 and June 30 and is calculated by multiplying the capital charge rate by the net assets/equity amount. For 2008-09, the capital charge is \$16,000 (2008: \$22,000).

**NOTE 4: CASH AND CASH EQUIVALENTS**

	<b>2008/9 Actual</b>	<b>2008/9 Final Budget</b>	<b>2007/8 Actual</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Bank accounts	70	224	132
<b>Total Cash and Cash Equivalents</b>	<b>70</b>	<b>224</b>	<b>132</b>

**NOTE 5: ACCOUNTS RECEIVABLE, WORK IN PROGRESS AND PREPAYMENTS**

	<b>2008/9 Actual</b>	<b>2008/9 Final Budget</b>	<b>2007/8 Actual</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Audit services to PAC (accounts receivable)	-	-	50
Audit services to PAC (work in progress)	59	67	82
Audit services to other government agencies (accounts receivable)	116	83	228
Audit services to other government agencies (work in progress)	144	170	136
Prepayments	1	21	21
Interest Receivable	-	2	3
Other Receivables – Salary Advance	-	-	2
<b>Total Gross accounts receivable, work in progress &amp; prepayments</b>	<b>320</b>	<b>343</b>	<b>522</b>
Less provision for doubtful debts	-	-	-
<b>Total Net accounts receivable, work in progress &amp; prepayments</b>	<b>320</b>	<b>343</b>	<b>522</b>

OFFICE OF THE AUDITOR GENERAL  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 30 JUNE 2009  
 (Expressed in Cayman Islands Dollars)

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

	Furniture & Fittings \$000	Office Equipment \$000	Computer Equipment \$000	Total \$000
<u>Cost</u>				
At July 1, 2007	60	25	46	131
Additions	-	5	7	12
Disposals/transfers	-	(6)	(16)	(22)
At June 30, 2008	60	24	37	121
<u>Accumulated Depreciation</u>				
At July 1, 2007	16	16	32	64
Accumulated depreciation on disposals/transfers	-	(6)	(16)	(22)
Depreciation charge for the year	6	5	9	20
At June 30, 2008	22	15	25	62
<b>Net Book Value at June 30, 2008</b>	<b>38</b>	<b>9</b>	<b>12</b>	<b>59</b>
<u>Cost</u>				
At July 1, 2008	60	24	37	121
Additions	-	16	7	23
Disposals/transfers	-	(12)	-	(12)
At June 30, 2009	60	28	44	132
<u>Accumulated Depreciation</u>				
At July 1, 2008	22	15	25	62
Accumulated depreciation on disposals/transfers	-	(12)	-	(12)
Depreciation charge for the year	7	4	6	17
At June 30, 2009	29	7	31	67
<b>Net Book Value at June 30, 2009</b>	<b>31</b>	<b>21</b>	<b>13</b>	<b>65</b>

OFFICE OF THE AUDITOR GENERAL  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 30 JUNE 2009  
 (Expressed in Cayman Islands Dollars)

NOTE 7: ACCOUNTS PAYABLE

	2008/9 Actual	2008/9 Final Budget	2007/8 Actual
	\$000	\$000	\$000
Trade Creditors	16	17	49
Surplus Payable	96	96	96
Accruals	30	30	28
<b>Total</b>	<b>142</b>	<b>143</b>	<b>173</b>

Surplus Payable

The Audit Office experienced a surplus of \$50,000 for the year ending 30 June 2004 and \$46,000 for the year ending 30 June 2007. Under the *Public Management & Finance Law (2005 Revision)* section 39 (3)(f) the Office may "retain such part of its net operating surplus as is determined by the Financial Secretary". Therefore, the Office has booked a surplus payable to Government in the amount of \$96,000 (30 June 2008: \$96,000) as the Financial Secretary has not confirmed whether the Office can retain the surplus achieved in prior years.

NOTE 8: EMPLOYEE ENTITLEMENTS (CURRENT)

	2008/9 Actual	2008/9 Final Budget	2007/8 Actual
	\$000	\$000	\$000
Long service leave and other leave entitlements	107	81	121
Cost of Living Adjustment Payable <sup>1</sup>	-	-	45
<b>Total Employee Entitlements</b>	<b>107</b>	<b>81</b>	<b>166</b>

<sup>1</sup>Cost of Living Adjustment Payable

In April 2008 Cabinet conditionally approved a Cost of Living Adjustment (COLA) of 3.2% to be paid retroactively starting July 1, 2007. On July 9, 2008 the COLA was formalized through Administrative circular no.3 of 2008 and was calculated to be \$45,000 for the Office, which was recorded as a payable for the year ended 30 June 2008 and was subsequently paid in July & August 2008.

OFFICE OF THE AUDITOR GENERAL  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 30 JUNE 2009  
 (Expressed in Cayman Islands Dollars)

**NOTE 9: RECONCILIATION OF NET (DEFICIT)/SURPLUS TO CASH FLOWS FROM OPERATING ACTIVITIES**

	2008/9 Actual	2008/9 Final Budget	2007/8 Actual
	\$000	\$000	\$000
Net (deficit)/surplus	(168)	-	(31)
<b>Non-cash movements</b>			
Depreciation	17	20	20
(Decrease)/Increase in payables/accruals	(90)	(81)	124
Net loss from sale of fixed assets	-	-	1
Decrease/(increase) in receivables	202	178	(209)
<b>Net cash flows from operating activities</b>	<b>(39)</b>	<b>117</b>	<b>(95)</b>

**NOTE 10: CASH EQUITY INJECTION**

In June 2007 the Office submitted a Supplementary Budget for the fiscal year 2006-07 to obtain a cash equity injection of \$177,000 to help alleviate the cash flow problems resulting from the high levels of accounts receivable. The cash equity injection was received in December 2007 and was therefore recognized in the 2007-08 statement of changes net assets and cash flow statement.

**NOTE 11: RELATED PARTY TRANSACTIONS**

Key Management Personnel

There are four personnel at the senior management level. Their total remuneration includes: regular salary, pension contributions, health insurance contributions, acting allowance, duty allowance, settlement allowance and motor car upkeep. Total remuneration for senior management in 2008-09 was \$501,000 (2007-08: \$498,000). There were no loans made to key management personnel or their close family members in 2008-09 (2008: \$0).

**NOTE 12: FINANCIAL RISK MANAGEMENT**

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

Interest Rate Risk

The Office is subject to interest rate risk on the cash placed with a local bank which attracts interest. No interest payments are charged to customers on late payments on accounts receivable. The Office is not exposed to significant interest rate risk as the cash and cash equivalents are placed on call and available on demand. The total interest earned during the year ended 30 June 2009 was \$0 (2008: \$3,000)

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.

**OFFICE OF THE AUDITOR GENERAL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009  
(Expressed in Cayman Islands Dollars)**

**NOTE 12: FINANCIAL RISK MANAGEMENT (continued)**

Credit Risk (continued)

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

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 2009 and 2008, 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.

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

Liquidity Risk

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

The ability of the Office to meet its debts and obligations is dependent upon its ability to collect the debts outstanding to the Office in a timely basis. In the event of being unable to collect its outstanding debts, it is expected that Government would temporarily fund any shortfalls the Office would have with its own cash flows. As at 30 June 2009 and 2008, all of the financial liabilities were due within three months of the year end dates.

**NOTE 13: FINANCIAL INSTRUMENTS – FAIR VALUES**

As at 30 June 2009 and 2008, the carrying value of cash and cash equivalents, accounts receivable, work in progress, accounts payable and employee entitlements approximate their fair values due to their relative short-term maturities.

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

**Part C**

**Independent Auditor's Report**

**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Office of the Auditor General (the "Audit Office") which comprise the statement of financial position, statement of commitments and statement of contingent liabilities, all as at 30 June 2009, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as presented on pages 31 to 45.

*Management's Responsibility for the Financial Statements*

The Auditor General is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Audit Office as at 30 June 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

## Report on the Statements of Output Performance

Except as discussed in the section “Scope Limitations” below, we have performed assurance procedures on the statements of output performance (the “Statements”) as presented on pages 10 to 20 of the Annual Report for the year ended 30 June 2009.

The Statements consist of the following outputs:

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

### *Responsibilities*

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

- 1) Financial measures of the actual revenue earned and the actual costs incurred in respect of each output for the year ended 30 June 2009.
- 2) Budgeted costs for each output as duly approved in the “Supplementary Annual Budget Statement 2008/9”.
- 3) Quantitative measures of the outputs delivered during the year ended 30 June 2009
- 4) Qualitative measures of the outputs delivered during the year ended 30 June 2009.
- 5) Timeliness measures of the outputs delivered during the year ended 30 June 2009.
- 6) Location of the delivery of outputs during the year ended 30 June 2009.

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

### *Scope*

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

Our assurance procedures on the Statements were planned and performed to obtain all information and explanations we considered necessary to issue our report based on a reasonable level of assurance. Our assurance procedures included examining, on a test basis, evidence supporting the amounts and other disclosures included in the Statements and making enquiries of key members of management and the staff of the Audit Office. These procedures have been undertaken to enable us to issue our report as to whether, in all material respects, the Statements fairly represent the indicated performance of the Audit Office for the year ended 30 June 2009, as measured by reference to the parameters provided by the Auditor General which are included in Appendix I of this report.

### *Scope Limitations*

The parameters included in Appendix I for each of the output measures included in the Statements have been provided to us by the Auditor General and are solely his responsibility. We do not accept responsibility for the determination of these parameters as the basis of measure for each of the outputs, or for their appropriateness or relevance.



*Scope Limitations (continued)*

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

*Opinion*

In our opinion, except for such adjustments and additional information or clarification, if any, which we may have determined to be necessary if we were able to perform procedures to remove the scope limitations discussed in the “Scope Limitations” paragraphs, the Statements fairly represent, in all material respects, the performance of the Audit Office for the year ended 30 June 2009, as measured by reference to the parameters included in Appendix I.



October 27, 2009

PERFORMANCE INDICATORS AND PARAMETERS

AS PROVIDED BY THE AUDITOR GENERAL

**AUD-02 – Investigations and Reports**

*Financial Measures*

The bases for financial measures were as follows:

- i) Actual revenue - as recorded for reports included for this output in the accounting records of the Office of the Auditor General (the “OAG” or “Audit Office”) for the year ended 30 June 2009.
- ii) Actual costs – as recorded for reports included for this output in the accounting records of the OAG for direct costs and indirect costs allocated on the basis described in Part 8 of the Financial Regulations (2008 Revision) for the year ended 30 June 2009.
- iii) Budgeted cost – as recorded in the Supplementary Annual Budget Statement 2008/9 for the OAG.

*Quantitative Measures*

The parameters for the quantitative measures were as follows:

- 0 - 70%** During this first stage of a value for money audit or an investigation, the Audit Office will have planned the audit, held client meetings, documented the client’s systems, tested the systems, analyzed the data, and made preliminary evaluations and conclusions. The conclusion of this phase is generally an audit file that documents the work to date. This phase usually consumes 70% of the total resources devoted to the project.
- 71 - 85%** At this stage of the audit, a Manager and the Auditor General will have reviewed the fieldwork documentation to ensure preliminary evaluations and conclusions are consistent with the audit evidence obtained. The first draft of the value for money or investigative report will then be written. At the 85% completion mark the first draft of the report will have been issued to the client for comments.
- 86 - 90%** At this stage of the audit, discussions with the client on the draft report will have been held. At 90% the first response from the client will have been received and considered in the second draft of the report.
- 91-100%** This is the final stage of the audit where the report will be finalized, along with client comments as appropriate. The final versions of the report will be prepared and issued to the Legislative Assembly, the Governor, Statutory Authority and/or Government Company.

Specialist technical advice provided to Government Organizations is measured by the number of hours the Office of the Auditor General staff provides.

*Qualitative Measures*

The bases for the qualitative measures were as follows:

- i) Final reports reviewed by Audit Manager and/or Auditor General and “agreed by client”:
  - 100%** indicates the report has been reviewed by and Audit Manager and/or the Auditor General and “agreed by client”.
  - 0%** indicates the report was not reviewed by the Audit Manager and/or the Auditor General and “agreed by client”.

PERFORMANCE INDICATORS AND PARAMETERS

AS PROVIDED BY THE AUDITOR GENERAL

**AUD-02 – Investigations and Reports (Continued)**

*Qualitative Measures (Continued)*

For the purposes of the above, “agreed by client” is defined to mean that the Audit Office have provided the opportunity to the client to comment on a draft report that the Audit Office plan to issue. “Agreed by client” does not presume that the client will agree to the findings and conclusions of the report, but that the client has been provided the opportunity to comment on the report, which can impact the final report to be issued and/or the client’s responses may be included in the body of the final report.

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

ii) Obtain client’s response, if any, on the report and amend report if necessary:

**100%** indicates client’s responses were obtained and changes were made to the report as appropriate as a result of the client’s response.

**0%** indicates client’s responses were not sought, and/or change the report as a result of the client’s responses.

iii) Issued report to be signed off by Audit Manager and/or Auditor General:

**100%** indicates the Audit Manager and/or the Auditor General did sign off on the report.

**0%** indicates the Audit Manager and/or the Auditor General did not sign off on the report.

*Timeliness Measures*

The bases for the timeliness measures were as follows:

**100%** Report issued.

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

In regards to providing specialist technical advice to Government Organizations, timeliness is measured by:

**100%** Advice provided in the timeframe expected by the Government Organization.

**0%** Advice not provided in the timeframe expected by the Government Organization.

*Location Measures*

The basis for this measure was as follows:

**100%** Fieldwork performed at the Office of the Auditor General or client’s premises.

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

PERFORMANCE INDICATORS AND PARAMETERS

AS PROVIDED BY THE AUDITOR GENERAL

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

*Financial Measures*

The bases for financial measures were as follows:

- i) Actual revenue - as recorded for reports included for this output in the accounting records of the Office of the Auditor General (the “OAG” or “Audit Office”) for the year ended 30 June 2009.
- ii) Actual costs – as recorded for reports included for this output in the accounting records of the Audit Office for direct costs and indirect costs allocated on the basis described in Part 8 of the Financial Regulations (2008 Revision) for the year ended 30 June 2009.
- iii) Budgeted cost – as recorded in the Supplementary Annual Budget Statement 2008/9 for the OAG.

*Quantitative Measures*

The parameters for the quantitative measures were as follows:

- 0 - 69%** The initial step to providing assistance and advice to PAC begins when the Auditor General submits a Report to PAC for their review. No measure for this output is recognized until the OAG hold initial meetings with PAC to brief them on the report. Thereafter the OAG will draft up a list of witnesses to call and potential questions to be asked of the witnesses based on the report.
- 70 - 89%** Auditor General and applicable staff from the OAG attend PAC meetings held where witnesses are called and questions posed to the witnesses. Auditor General will provide specific information or advice to the PAC when called upon to do so during the meeting and/or will provide supporting documentation afterwards.
- 90 - 99%** The Office of the Auditor General will provide support to the PAC in drafting their report on the Auditor General’s Report and the evidence they have gathered from the witnesses and make recommendations to the Legislative Assembly.
- 100%** The PAC report is tabled in the Legislative Assembly along with the Auditor General’s Report.

*Qualitative Measures*

The bases for the qualitative measures were as follows:

- i) PAC reports reviewed by Audit Manager and/or Auditor General:
  - 100%** Performed.
  - 0%** Not Performed.
- ii) Provision of Committee support services to the satisfaction of the PAC:
  - 100%** PAC confirmed that support services were to its satisfaction.
  - 0%** PAC confirmed that support services were not to its satisfaction.

PERFORMANCE INDICATORS AND PARAMETERS

AS PROVIDED BY THE AUDITOR GENERAL

**AUD-03 - Advice, Assistance and Reports to the Legislative Assembly and its Committees (Continued)**

*Timeliness Measures*

The bases for the timeliness measures were as follows:

- 100% Auditor General Reports become are publicly available within one week of submission to the Honorable Speaker of the Legislative Assembly.
- 0% Auditor General Reports did not become publicly available within one week of submission to the Honorable Speaker of the Legislative Assembly.
- 100% Auditor General Reports became publicly available within two days on the Government website.
- 0% Auditor General Reports did not become publicly available within two days on the Government website.

The percentage is based on the number of reports that were made publicly available in a timely manner. For example, if two reports were made public during the current fiscal year, but only 1 report was made publicly available within the timeframe anticipated then the timeliness percentage would be recorded as 50%.

With respect to Advice and Assistance provided to the PAC, the basis for the timeliness measure was as follows:

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

*Location Measures*

The basis for this measure was as follows:

- 100% Fieldwork performed at the Office of the Auditor General or client's premises.
- 0% Fieldwork not performed at the Office of the Auditor General or client's premises.

PERFORMANCE INDICATORS AND PARAMETERS

AS PROVIDED BY THE AUDITOR GENERAL

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

*Financial Measures*

The bases for financial measures were as follows:

- i) Actual revenue - as recorded for reports included for this output in the accounting records of the Office of the Auditor General (the “OAG” or “Audit Office”) for the year ended 30 June 2009.
- ii) Actual costs – as recorded for reports included for this output in the accounting records of the Audit Office for direct costs and indirect costs allocated on the basis described in Part 8 of the Financial Regulations (2008 Revision) for the year ended 30 June 2009.
- iii) Budgeted cost – as recorded in the Supplementary Annual Budget Statement 2008/9 for the OAG.

*Quantitative Measures*

The quantities are measured by a simple count of:

- i) number of the memorandums updated and signed off annually,
- ii) number of meetings attended,
- iii) training sessions held,
- iv) hazard management plan updated, and
- v) number of times relief support services are provided.

*Qualitative Measures*

The bases for the qualitative measures were as follows:

- i) Memos of Understanding are agreed to and signed off by the other party and Auditor General:
  - 100% signed off by both parties
  - 0% not signed off
- ii) Attendance and participation in annual NHC preparation meetings and other NHC/IAM meetings at an acceptable level to the NHC Chair:
  - 100% attendance and participation in NHC preparation meetings and other NHC/AIM meetings at an acceptable level to the NHC Chair.
  - 0% attendance and participation in NHC preparation meetings and other NHC/AIM meetings not at an acceptable level to the NHC Chair.
- iii) LSS Training session to be provided by outside expert:
  - 100% training session held and/or provided by an outside expert.
  - 0% training session not held and/or provided by an outside expert.

PERFORMANCE INDICATORS AND PARAMETERS

AS PROVIDED BY THE AUDITOR GENERAL

**AUD 08 - Support Services to the National Hurricane Committee and Hazard Management (Continued)**

*Qualitative Measures (Continued)*

iv) Hazard Management Plan accepted by the Hazard Management Cayman Islands:

100% Hazard management Plan accepted by the Hazard Management Cayman Islands.

0% Hazard Management Plan not accepted by the Hazard Management Cayman Islands.

v) Relief Support services for disaster provided at an acceptable level of the Director of Hazard Management Cayman Islands:

100% support services at an acceptable level to the NHC Chair.

0% support services **not** at an acceptable level to the NHC Chair.

*Timeliness Measures*

The basis for the timeliness measures were as follows:

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

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

*Location Measures*

The basis for this measure was as follows:

100% work performed in the Cayman Islands.

0% work not performed in the Cayman Islands.

