

**Annual Report**  
30 June 2016





To help the public  
service spend wisely

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## FOREWORD BY THE AUDITOR GENERAL

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I am delighted to present the Annual Report of the Office of the Auditor General (“Office” or “OAG”) of the Cayman Islands for the year ending 30 June 2016 in accordance with Section 69 of the *Public Management and Finance Law* (2013 Revision).

I commenced the Auditor General post on 8 July 2016 and it is a privilege to lead the Office ensuring it continues to deliver value to the people of the Cayman Islands. Even though I was not in Office for the past fiscal year upon which this Report is based I am pleased with the significant work that has been accomplished by the staff of the Office in 2015/16.

I pay particular tribute to the past Auditor General, Alastair Swarbrick who left in October 2015 and the Deputy Auditor General, Garnet Harrison who acted as Auditor General for the majority of 2015/16 financial year and who between them led the Office so effectively during this period.

The Office plays a critical role in the governance framework of the Cayman Islands and while I know the main job we have is to hold government to account, I also look forward to helping the government manage public resources and deliver effective programmes and services.

This annual report completes the accountability cycle that began when the Office published its 2015/16 Annual Budget Statement in June 2015. Both documents help legislators and the



public understand how we have assessed our performance. A further objective of this report is to communicate who we are and what we do, and to encourage the reader to understand our role and our desire to deliver value to the people of the Cayman Islands by ensuring public funds are managed in a transparent and accountable way.

This has been another challenging and successful year for the Office as we have continued to push for greater accountability and transparency in the use of public resources. We have maintained the pressure on Government to bring its financial statements up to date to provide stakeholders timely and credible information about the financial position of Government and its entities. And we have delivered a number of important performance audit reports which will be

instrumental for lasting improvement in the way that Government carries out its business.

Our strategic plan (2015-2019) includes three objectives for the Office:

- **Strengthening** the accountability, transparency, integrity and delivery of **public services** through high quality audits
- **Demonstrating** ongoing **relevance** to the people of the Cayman Islands, the Legislative Assembly and other stakeholders
- Encouraging improvement through **leading by example**

The achievement of these objectives will be driven by the core activities of the OAG: the financial audits of Government and its agencies; and, performance audits reporting on the economy, efficiency, and effectiveness of government's activities and public spending to the Legislative Assembly. Holding Government to account for its spending and for providing value for money in public services will remain a key focus.

However a fundamental component of achieving these objectives will be looking at how we can have a greater impact by providing added value, looking for ways to support Government as it implements its change and reform agenda, and delivers a number of key infrastructure projects.

The achievement of these objectives provides my Office with some challenges, but they are important in ensuring that we continue to be a well-respected and effective provider of public audit in the Cayman Islands, and seen as a leader in our field within the Caribbean, and more widely within the international public audit community.

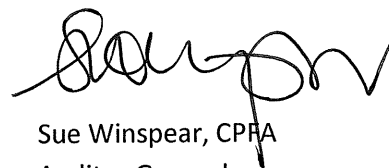
The Office's ability to achieve its objectives depends on the efforts of many people.

For example, legislators support the work of the Office by providing the funds needed to audit the Government. Adequate funding helps the Office meet legislators' and the public's expectations. Also, the legislators' review of the reports of the Office through the Public Accounts Committee helps ensure that our work makes a difference by holding government officials to account and recommending improvements.

Government officials and our appointed auditors used for several audits also contribute to the Office's success. Without the co-operation and assistance of government officials we would be unable to report on the quality of their management to the Legislative Assembly.

Lastly, I want to thank the dedicated team of auditors who contribute their experience, skills and hard work to fulfill our mandate in providing assurance and advice to the Legislative Assembly and the Government. The reports issued to the Legislative Assembly are the result of their hard work.

I look forward to leading the Office, so that we continue to play our part in improving public services and financial management for the people of the Cayman Islands into the future.



Sue Winspear, CPFA  
Auditor General

30 September 2016

# ABOUT THE OAG

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## PUBLIC SECTOR AUDIT

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

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

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

Public sector audit is an important link in the chain of accountability. It strengthens accountability, both upward to the elected

## The Cayman Islands Constitution

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

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

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

## WHO WE ARE AND WHAT WE DO

For the parliamentary system of government to work properly, it must have the public's confidence. To merit this confidence, the Government's programs must be effective, transparent, and accountable to the public. One important responsibility of the Legislative Assembly is to hold the Government accountable for its management of public resources. This work is conducted primarily through Public Accounts Committee ("PAC").

The Office of the Auditor General contributes to the accountability process as the auditor of the Government including all of its agencies. The Office helps the Assembly hold the Government accountable for how it manages public resources by undertaking financial statement audits across public sector entities and performance audits which promote the efficient, effective and economic use of public resources across public sector entities.

The work and reports of the Office promotes confidence in the Government. Legislators and the public are provided with critical information on whether the Government's financial and other reports are reliable, the Government uses effective processes to safeguard the resources with which it is entrusted, and the Government has complied with governing laws, regulations and other relevant authorities.

Also, the Office does the following:

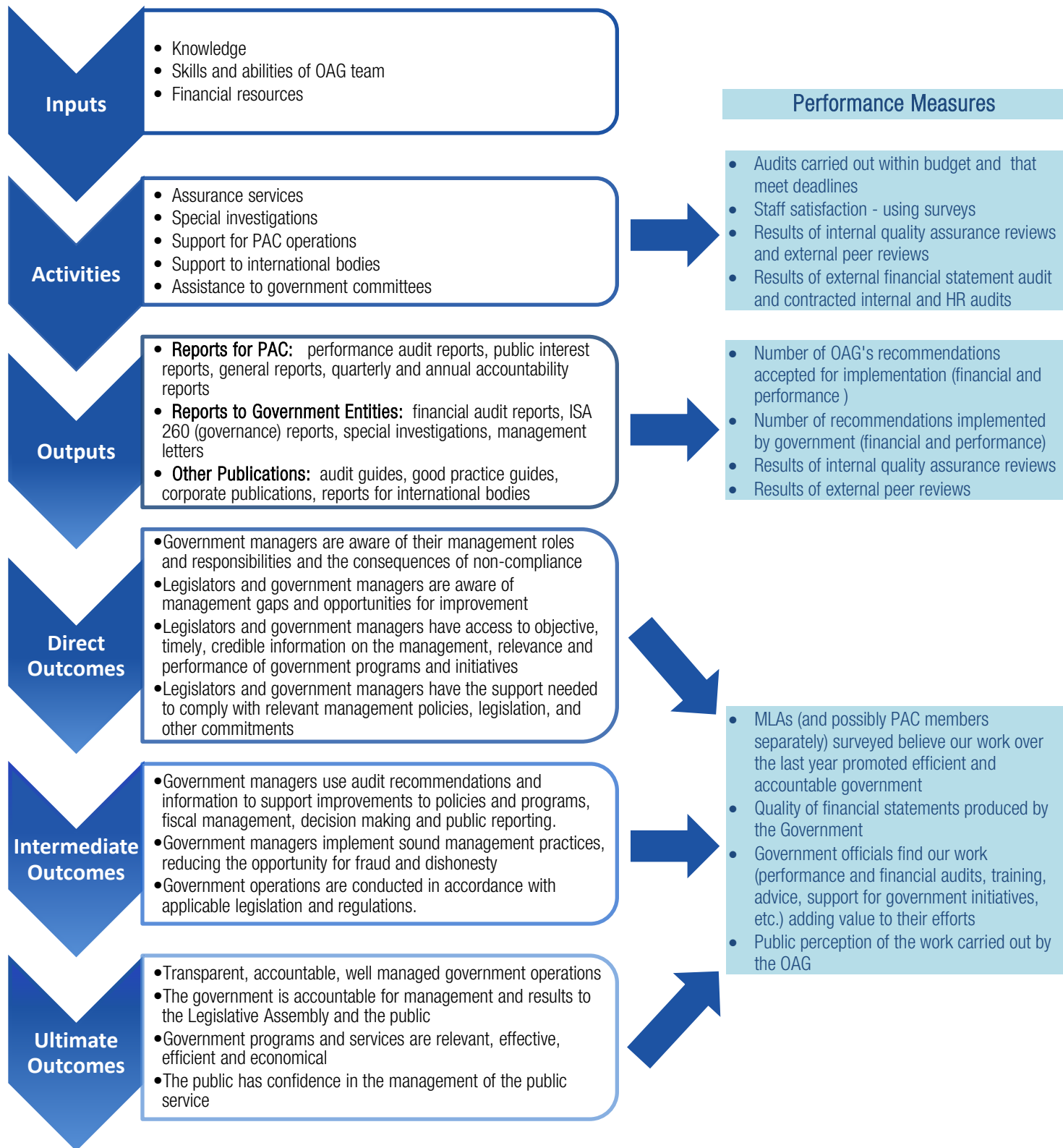
- makes recommendations for improvements to the Government's management of public resources and compliance with authorities
- encourages discussion and debate about public sector management and accountability issues
- provides advice to government committees
- assists the PAC in carrying out its mandate
- encourages professionalism in the public service
- adheres to the professional assurance standards as published by the International Audit and Assurance Standards Boards and the International Organisation of Supreme Audit Institutions.
- plays an active role in the Caribbean region by being on the Executive Committee of Caribbean Organisation of Supreme Audit Institutions ("CAROSAI").

The work and reports of the Office contributes to informed decision-making in government and the use of business-like processes. This, in turn, helps the Government use sound management practices to achieve results with public resources.

Exhibit 1 shows the broader picture of the Office's outputs and outcomes through a depiction of its delivery model.



## Exhibit 1 - OAG Delivery Model



## OUR STRATEGY

During 2014/15 we undertook an exercise to refresh our strategic plan, including refining our vision, mission and core values, and seeking views from a range of stakeholders. We published an updated five year strategic plan in May 2015.

We then incorporated our new strategic plan in our 2015/16 Budget submission to the Legislative Assembly, which set out our strategic ownership goals based on our three over-arching strategic objectives of: strengthening public services; demonstrating relevance; and leading by example.

The new strategic plan provides direction for the work of the Office. It enables us to monitor our progress and performance, and provides a basis for stakeholders to understand our performance in future years. Over the timeframe of the new plan the core activities of the OAG will continue to be the financial audit of Government and its agencies and performance audits reporting on the economy, efficiency, and effectiveness of public spending to the Legislative Assembly. Holding Government to account for its spending and for providing value for money in public services will remain a key focus. However a fundamental driver over the next five years will be looking at how we can have a greater impact by providing added value, for example through:

- working even more closely with the PAC so that our work focuses on their highest priorities
- participation on Government improvement task forces

- turning audit knowledge and intelligence into advice and good practice support, and
- undertaking audit work on major projects and programmes earlier in their lifecycle to better ensure the Government delivers successful, cost effective implementation of their policies.

We will continue to deliver a quality service to the Legislative Assembly and the entities we audit, and we will pursue our objectives as we carry out our programme of work as an independent office. We have presented our new plan under three broad strategic objectives:

- **Strengthening** the accountability, transparency, integrity and delivery of **public services** through high quality audits
- **Demonstrating** ongoing **relevance** to the people of the Cayman Islands, the Legislative Assembly and other stakeholders
- Encouraging improvement through **leading by example**

## **Exhibit 2 - Strategic Plan Objectives**

### **Strengthening Public Services**

We will help strengthen accountability, transparency, and the delivery of services in the public sector.

As the watchdog of government spending, our work gives us direct interaction and insight into how the public sector is operating and changing. As well as having direct interaction with every public entity each year, we also have an independent reporting role enshrined in legislation. We provide a credible and reliable source of information to government, legislators and society and can contribute to strengthening the public sector through our audits, by using our powers of reporting, and our interaction within and outside the public sector, on matters such as governance, accountability, financial sustainability and the efficient, effective and economic use of resources.

### **Demonstrating Relevance**

In our work we will demonstrate our relevance by taking into account the views of our external stakeholders and those who use public services.

We place great importance on relationships with all of our stakeholders: Legislative Assembly, public entities, elected and appointed officials, professional organisations, and the general public of the Cayman Islands.

We want to be responsive to the challenges faced by the public, the expectations of different stakeholders, and the emerging risks and changes in the environment in which we conduct our work. It is also important that we continue to have a dialogue with stakeholders about how our work can facilitate improvement in the public sector.

### **Leading by Example**

We will be agile, adapt to change and lead by example as individuals and as an organisation.

Staying the same or standing still is not an option for our Office. In our fast changing and evolving environment, auditing and the role of the auditor will continue to develop and change. International trends, such as rapid changes in technology, are also changing expectations among end users of audit and assurance information. Our ability to develop, adapt and be agile is important to ensuring we remain relevant and that we can remain a model organisation which leads by example both locally and regionally.

## OUR WORK

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***Better quality financial information and increased transparency won't solve all the challenges of governing, but they will greatly assist government decision making and performance.***

IFAC, *Accountability. Now.*

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

### FINANCIAL AUDIT

Our financial audit work helps the Legislative Assembly hold organisations to account for over \$750 million of expenditures and over \$1.6 billion in assets and liabilities. Our audits provide independent assurance to the Legislative Assembly on how public money has been spent, how revenue has been generated, that assets have been safeguarded and liabilities are fully recognised.

The findings and recommendations from our financial audits should help focus attention and stimulate improvement in governance and control, enhance financial management and the

quality of information that government entities use to make decisions.

In 2015/16, we carried out financial audits of 42 individual entities (see Appendix 1) and on the consolidated financial statements of Government, and the associated Schedule of Appropriations. During this period, there has been an increase in the backlog of audited financial statements and annual reports to be tabled in the Legislative Assembly. By the end of the fiscal year the backlog of financial audits had doubled from the previous fiscal year due to clients being more inclined to prolong the 2015 audits in order to fix qualified areas to improve their audit opinion.

### ENTITY FINANCIAL STATEMENTS

During the year we worked cooperatively with Government to audit the 2014/15 financial statements and attempted to clear the remaining backlog. The Deputy Governor and our Office maintained pressure on entities and

their senior management, to ensure that there was a concerted effort by entities to complete all outstanding financial statements by 30 June 2016. However, this target was not achieved and the backlog of financial statements was actually in a worse position than at 30 June 2015.

We issued in total 33 (2014/15: 51) financial statement audit opinions on individual entities during the year. Of these 29 were for the most recent year (2014/15: 34). As at 30 June 2016 there were 20 (2014/15: 10) audits still outstanding.

We continue to see improvements in the quality of entity financial statements, but there were delays in finalizing several audits. Therefore we have seen a significant increase in audits outstanding as at the 30 June 2016. Out of the 10 outstanding as at 2015, 7 were still outstanding at 2016 due to major technical matters not being resolved and/or slow or limited client support. Some of these technical issues related to property valuations and post medical retirement benefits, etc. In addition, we did not have a full complement of staff throughout the year and not having an Auditor General also placed further strain on the review process of the audit files.

There is still a significant ways to go to achieve a position where most financial statements receive unqualified audit opinions and within the statutory timetable.

In addition, we have reported the lack of annual reports required by the PMFL to explain the financial results.

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

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## ENTIRE PUBLIC SECTOR (EPS) FINANCIAL STATEMENTS

With respect to the EPS financial statements of the Government, we continued to work with Government on auditing the submissions for the years 2013/14 and 2014/15. These statements include all the executive transactions of government which are not included in any of the individual entity financial statements. As well, the EPS financial statements include the coercive revenues (means revenue earned by the core government using the coercive power of the state and for which no direct exchange of service occurs), transfer payments, executive expenses and loan transactions.

We finalized the audit of the 2013/14 EPS financial statements and have issued an adverse audit opinion. From the years 2008/09 to 2012/13 we issued disclaimers of opinion on the EPS financial statements for each year. As at the date of this report we have not issued the audit opinion on the 2014/15 EPS financial statements and are awaiting management sign off and representations to us.

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## IMPACT OF OUR WORK

We believe that our work is having an impact as the timeliness and quality of financial reporting is improving. Since 2010, when the state of financial reporting was a national embarrassment, with effectively no accountability for or transparency in the use of public resources, the state of affairs has

improved considerably. However, significant further work is still required before financial accountability is fully restored and the Government has reliable and timely financial information for accountability and decision making.

We will continue working with the Government to improve the quality and timeliness of financial reporting, so that the goal of having accountability in line with the statutory requirements is achieved.

## AUDITING STANDARDS AND ETHICS

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

As public auditors we have to ensure our independence and effectiveness through the application of a Code of Conduct prescribed by the International Federation of Accountants and ISSAI 30, and the code of ethics for Supreme Audit Institutions. The Auditor General performs the role of the ethics partner and provides advice on compliance with the standards.

## PERFORMANCE AUDIT

A fundamental part of our remit is to conduct audits on whether government carries out its business efficiently, effectively and

economically. Performance auditing (previously called value-for-money auditing) is carried out in accordance with the International Standards on Auditing using guidance from the International Organisation of Supreme Audit Institutions. Individual performance audits are based on a planned and published programme of work ([Performance Audit Programme - January 2015](#)).

In complying with the standards, the OAG follows a set methodology to ensure that the audits are appropriately planned, executed, and reported. While there are several key elements of the methodology, the clearance of the draft audit reports with senior government officials is an important step that is carried out with every audit. Through this, senior officials including the Deputy Governor confirm the factual accuracy of the information in the report before it is finalized and issued to the Legislative Assembly.

During the year we issued three reports: Management of Nation Building Programme; Collecting Government Revenues; and Government IT Security.

As at 30 June 2016, work was underway on an additional five performance audits. These include: Scrap Metal, Healthcare, and Governance of the three aviation related agencies.

Further details of the reports issued and those in progress can be found in Appendix 2.

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

We work closely with the Public Accounts Committee to promote effective management and greater accountability of public resources.

During 2015/16, the PAC met frequently with the Office in attendance, and held several public hearings to discuss and gather further evidence on our reports before preparing their own reports to the Legislative Assembly.

The PAC reviewed eight reports issued by the Office over the last year and issued reports of its own requiring the Government to respond to its recommendations.

The PAC tabled 8 reports in June and according to the Standing Orders, should have responses from government officials in September. The reports tabled were as follows:

- Report of the Office of the Auditor General on the Major Capital Projects: Building Schools – May 2015
- Report of the Office of the Auditor General on the National Land Development and Government Real Property – June 2015
- Report of the Office of the Auditor General on Collecting Government Revenues – September 2015
- Report of the Office of the Auditor General on Government IT Security – September 2015
- Report of the Office of the Auditor General on the Nation Building Programme – July 2015

- Report of the Office of the Auditor General on Government Programmes Supporting Those in Need – May 2015
- Report of the Office of the Auditor General on the Financial and Performance Reporting - Statutory Authorities and Government Companies years ending 30 June 2013 and 2014; the Financial and Performance Reporting -Entire Public Sector years ending 30 June 2013 and 2014; and the Financial and Performance Reporting - Ministries, Portfolios and Offices years ending 30 June 2013 and 2014
- Report of the Office of the Auditor General on the Management of Travel and Hospitality Expenditures – May 2014

## **COMMUNICATION AND ENGAGEMENT WITH STAKEHOLDERS**

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

During 2015/16 the OAG team met and consulted with a large number of stakeholders. We provided information and advice on many issues around areas including financial accounting, procurement, governance and programme management. Specific activities undertaken included:

- organising Government Professional Development Week

- engaging with the Strategic Review Implementation Unit regarding the implementation of the EY report
- apprising the Chamber of Commerce of OAG operations
- Maintaining strong working relationships with key partners such as the Anti-Corruption Commission, the Financial Crimes Unit, and private sector audit firms.

## REGIONAL AND INTERNATIONAL WORK

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

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

In June 2016 the Acting Auditor General and the Director of Financial Audit attended the X Congress of



X Congress of CAROSAI Participants

CAROSIA in Suriname. At the Congress the Acting Auditor General presented a lead paper on strengthening SAIs through training. Also, the Director of Financial Audit made a presentation on moving from a cash basis to an accrual basis of accounting.

At the triennial CAROSAI Congress, the Auditor

General was re-elected as a member of the CAROSAI Executive Council. The Office also represented CAROSAI on the International Organisation of Supreme Audit Institutions (INTOSAI) Capacity Building Committee.



The OAG has observer status on the Canadian Council of Legislative Auditors (CCOLA).

The benefit of this arrangement cannot be understated as CCOLA provides the Office with access to information, knowledge and practitioners in a jurisdiction that is well regarded for the quality of its public sector audit. Members of the OAG attended the annual conference in August 2015, the financial audit symposium in January 2016 and performance audit symposium in April 2016.

In April 2016 the Acting Auditor General and Director of Financial Audit attended a conference in Bahamas on "Strengthening Public Financial Reporting & Accountability".

Patrick Smith, Director of Financial Audit presented at this conference on the Cayman Islands public financial reporting reforms experience and the Acting Auditor General, Garnet Harrison presented Managing Change: Engaging Internal Stakeholders.

In January 2016, the Director of Performance Audit, Martin Ruben attended the Institute of Internal Auditors Bahamas Chapter 25 anniversary conference "Evolve, Emerge, Excel". The Director of Performance Audit made a presentation at this conference and also sat on a regional public sector round table panel for discussion on fostering integrity and combating fraud and corruption in the public sector.



Garnet Harrison & Patrick Smith presenting at conference in Bahamas on "Strengthening Public Financial Reporting & Accountability"

## OTHER ACTIVITIES

The Auditor General, as required under the Anti-Corruption Law, is a member of the Anti-Corruption Commission. The work of the OAG intersects with that of the Commission and staff members from the OAG have worked collaboratively with the Commission throughout the year.

In May 2016, however, an amendment was made to the Anti-Corruption Law, which removed the Auditor General, the Police Commissioner and the Complaints Commissioner from the Anti-Corruption Commission. The Office will continue to work collaboratively with the Commission where required.

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

The Auditor General is also a Director of the Auditors Oversight Authority. The Authority is charged with the regulation of auditors of market traded entities. The Authority continues to put in place the arrangements for it to effectively carry out its remit.

Further information on the Auditors Oversight Authority can be found on their website:

<http://aoa.ky/>.

# OUR ORGANISATION

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## LEADING BY EXAMPLE

As the watchdog for reporting on how scarce public resources are used, we must lead by example.

During the year we continued to work openly and transparently, promoting good governance, and upholding and promoting the standards expected of those in public life. We continued to work in a manner that embraced our core values of professionalism, respect, integrity and transparency.

### OAG Core Values

**Professional** – competently carrying out independent and objective work, always striving to deliver a high quality service

**Respect** - treating our employees, clients and stakeholders with respect and dignity

**Integrity** – conducting our work ethically, in a manner that creates confidence and trust in what we do

**Transparent** – accountability and transparency in the operations of the OAG

In 2015/16, the OAG continued consolidating the developments and significant changes that had occurred in the previous years. We continued on delivering the goals outlined in our strategic plan, including:

- reporting our performance through our annual report and accounts
- ensuring our internal controls enabled us to comply with relevant legislative requirements
- reviewing, maintaining and developing our internal policies
- proactively disclosing key information about the OAG
- maintaining and developing our website and Facebook pages.

The Office continued its support of the Deputy Governor’s Wellness Committee with two members of staff who have been involved in organising various activities throughout the year. One of the largest activities undertaken was the pedometer challenge “Every Step Counts” held from 18 January to 8 February 2016, which evolved from 5 government agencies and 58 participants in past year to over 35 teams made up from various ministries, portfolios, departments and Offices and with over 500 participants. This initiative developed from the Office’s previous workplace walk off challenge promoting exercise and healthy lifestyle as part of overall wellness.

## INDEPENDENCE OF THE OAG

The independence of the OAG is fundamentally important to the effective discharge of our constitutional responsibilities. The importance of independence for public audit offices was recognized by the United Nations General Assembly in December 2011 and Commonwealth Heads of Government in November 2013.

Over the years there have been significant challenges to our independence, in particular with constraints being placed on financial and human resources. However we have continued to move forward the agenda of strengthening the independence of the OAG, and during 2015/16 we made further progress. In particular, a new organisational structure of the Office was implemented to help ensure that we were better able to meet our mandate and ensure better succession planning was in place.

In addition, we have carried out an analysis of the Office's independence against the independence principles for supreme audit institutions, which are supported by the United Nations General Assembly through a resolution. The key challenge identified was ensuring that the OAG is an independent entity in both substance and form. On the basis of this analysis a number of key changes to the statutory provisions relating to the establishment of the OAG were identified that should be developed, revised or strengthened. These were:

- OAG established as an entity separate from Government

- budgeting and accountability reporting, for all of the OAG's operations (separate from core government)
- tenure of office for future Auditor Generals
- clarity for the public reporting of Auditor General reports
- independence for all financial and administrative policy matters

We have agreement to the principles of new legislation from ministers, the PAC and senior officials of Government. Over the next year we intend to drive the introduction of new legislation forward.

## CONTINUOUS DEVELOPMENT OF OUR PROFESSIONAL PRACTICE

We are required to carry out our work in compliance with International Standards on Auditing (ISAs) and we are now in the process of adopting International Standards of Supreme Audit Institutions (ISSAIs) which expand on the ISAs for application in the audit of government entities. We are now integrating the ISSAIs into our audit methodology for both financial and performance auditing.

During the year, we continued to develop our financial and performance audit practices focusing on the development of our audit manuals and documentation software, building in the requirements of ISSAIs.

We continued to implement our learning and development plan to ensure we meet our employees' professional development obligations while providing them with the required skills and tools.

We again delayed the full implementation of our quality assurance framework due to

resourcing constraints. With the restructuring of our Office over the past year and with the new Auditor General on board, we will work to address this issue, as its full implementation is required to meet our obligations under professional standards.

The focus for the coming year will be the full implementation of the ISSAIs within our audit methodology.

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

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

During the year, we developed capacity from two perspectives. Firstly, we ensured that our staff maintained and enhanced their skills so that the OAG meets its professional obligations for staff development. Secondly, we reviewed the overall resource needs of the OAG to enable the effective delivery of our mandate.

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

- the majority of our staff attended the Government Professional Development Week which provided sessions on financial management and leadership, goal setting and objective measures, ethical decision making, making performance measurement repeatable and accounting and auditing

standards. The OAG was again the key driver in the organisation of this event which was attended by over 200 people

- two staff members completed their diplomas in International Public Sector Accounting Standards
- two members of staff became a Certified Fraud Examiners
- one staff member completed the ACCA certificate in international auditing
- one member of staff completed their Masters of Business Administration (MBA) and two other members of staff are in the process of completing their MBAs
- one member of staff completed procurement training on “Advancing the art of tendering”

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

In line with our strategic plan, in 2015/16 we reorganised our office to be in a better position to deliver our mandate. The objectives of the reorganisation were to:

- provide sufficient capacity to deliver our core mandate
- build a sustainable performance audit practice with less dependency on the use of consultants
- ensure compliance with professional standards
- address managerial capacity, skills gaps and succession planning
- promote Caymanian employment and training

In 2015/16 two new Audit Manager positions were created and filled. However, due to the financial constraints we were unable to implement one other Audit Manager post and two auditor posts. The restructuring plan will take a couple of budget cycles to fully implement, but in due course we will reassess the reorganisation to determine if it has achieved the intended objectives and addressed some of the key challenges that have impeded the delivery of our mandate.

## **COMMUNITY INVOLVEMENT**

We encourage the staff of the OAG to get involved in community activities.

During 2015/16 OAG staff were again involved in the organisation of Leadership Cayman and the registration of swimmers for the Flowers Sea Swim.

Members of the OAG participated on the Cayman Islands Society of Professional Accountants training committee and some members supervised professional association examinations for students. Finally, members of the OAG guest lectured at various professional conferences and in the accounting and auditing program at UCCI and ICCI.

# OUR PEOPLE

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## The Senior Management Team



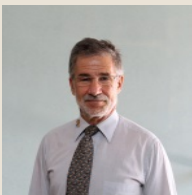
**Garnet Harrison, CPA,  
CA, Deputy Auditor  
General**

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



**Patrick Smith, CPA,  
CFE, Director of  
Financial Audit**

Responsible for managing our in-house financial audit practice



**Martin Ruben, FCPA,  
FCGA, Director of  
Performance Audit**

Responsible for managing our performance audit practice and communications

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

The senior management team was supported during the year by a team of 12 auditors and 2 administrative staff. Our auditors are all fully qualified members of professional accountancy bodies, with the exception of one who is working towards a professional designation.

Staff performance is managed through our performance management process. This process sets objectives, assesses performance and helps identify areas for development or training needs for professional development. All staff are provided with suitable training opportunities to ensure continual professional development, including Government Professional Development Week.

The ethics and independence of OAG staff is critical to the Office's success. All members of staff are required annually to confirm compliance with the Code of Conduct and report any potential conflicts of interest. The conflict of interests register is available for public inspection and senior management declarations are posted on the OAG website (<http://www.auditorgeneral.gov.ky/registerofinterests>).

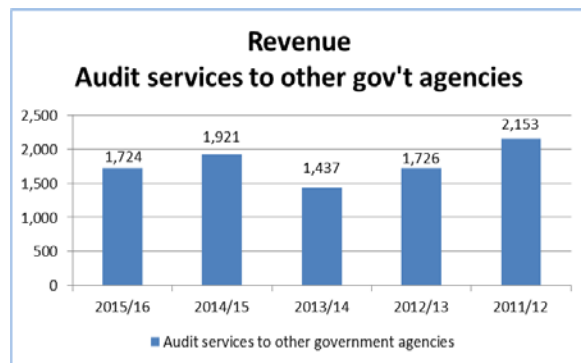
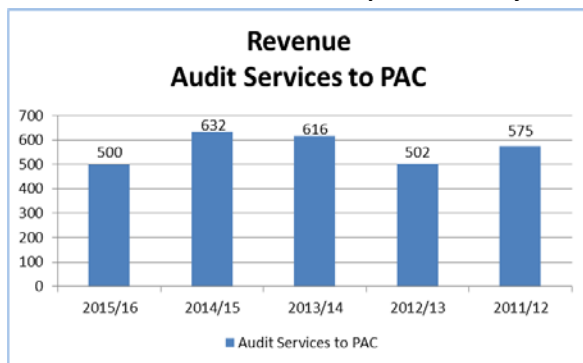
# OUR RESOURCES

This section provides a summary and a trend analysis of our use of financial, human and capital resources. The full audited accounts of the OAG are in the next section of the report and details of the outputs delivered are in Appendix 3.

## FINANCIAL STATEMENT TREND ANALYSIS AND DISCUSSION

### REVENUE ANALYSIS:

*Expressed in Cayman Islands Dollars and Thousands*



**Audit services to PAC:** has fluctuated over the past 5 years and in 2015/16 we were on the low end of the range due to staff vacancies within the Office and a shift away from relying on consultants to undertake performance audits on our behalf. Revenue from audit services is directly correlated to the number of reports and the complexity of those reports we have issued to the Legislative Assembly in each fiscal year. For example, in 2011/12 we issued 8 reports and had one in progress; whereas, last year we issued 5 reports, but had 7 in progress, with several audits/reports near completion and therefore we generated our highest revenue from this source in the past 5 years. However, in 2015/16 fiscal year we issued 6 and had only 3 audits/reports in progress.

**Audit services to other government agencies:** we saw a decline in revenues generated over the past year due to lower human resources to provide these services and certain audits going over budget which we did not charge for. Revenue from audit services to other government agencies to a certain extent correlates to the number of financial statement audit opinions we issue each year. Over the past 5 years we have issued the following number of financial statements audit opinions: 2015/16 – 34; 2014/15 – 54; 2013/14 – 48; 2012/13 – 49; 2011/12 – 55.

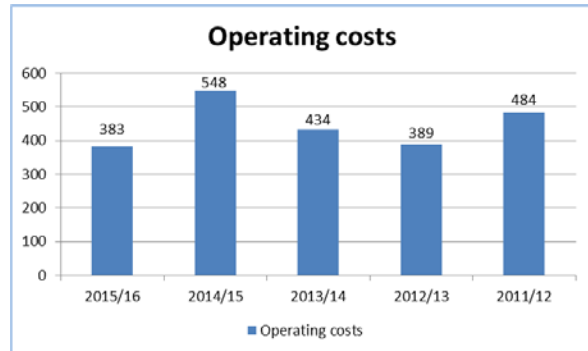
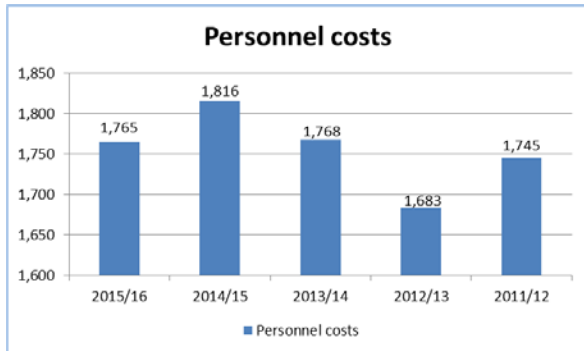


In 2013/14, we had a significant decrease in revenue from other government agencies due to delays in completing the entire public sector audits and a few other entities. Therefore, the

Office committed more time towards updating its audit practices and methodology, which was non-billable and resulted in less revenue earned.

**EXPENSE ANALYSIS:**

*Expressed in Cayman Islands Dollars and Thousands*



**Personnel costs:** have remained flat over the 5 year period (i.e. 1% change from 2011/12). There have been some increases in salaries from cost of living allowances provided and honorariums. However, staff have not received any salary increments for years due to government’s freeze on salary increments. In addition, health care premiums, overtime payments being made and duty allowances have increased to cover off extra duties required by staff. These increases have been managed through the staff complement during the year, which has resulted in nominal changes in personnel costs over the 5 year period.

**Operating costs:** rose slightly from 2011/12 to 2014/15 by \$64k or 13%. However, in 2015/16 we saw a sharp decrease in operating costs of \$165k from the prior year. This big decrease resulted from the restructuring plan to shift our focus away from having a significant reliance on paid to consultants to carry out our performance audit work and IT work and develop this capacity in-house. Therefore, professional fees decreased from \$300k in 2014/15 to \$167k in 2015/16. Most other operating expenses have been remained relatively consistent over this time period.

Revenue and expenses discussed above do not include the work undertaken on behalf of the Office by the private sector audit firms. If these audits were accounted for through the Office's financial statements, revenue and expenditure would both increase by over \$500k. The Office is trying to address this

issue by having these expenses attributed to our Office's operations instead of being charged directly to the entities. This would provide full accountability for the cost of public sector audit. However, this was not done in the recent budget process.

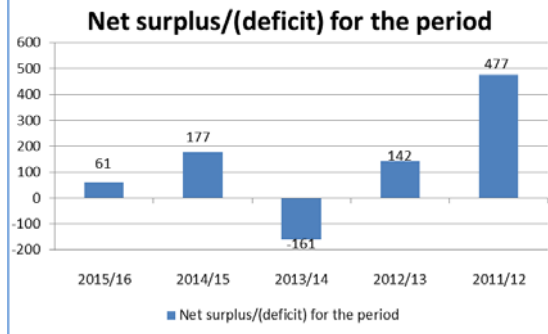
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**SURPLUS / (DEFICIT) ANALYSIS:**

The Office has been able to generate reasonable surpluses over the past 5 years as a result of the work done on clearing the backlog of financial statement audits. The only exception to this was 2013/14 where the Office incurred a deficit of \$161k, due to a significant decrease in revenue that fiscal year. The decrease in revenues was due to delays in completing the entire public sector audits and a few other entities and therefore, the Office committed more time towards updating its audit practices and methodology which was non-billable and resulted in less revenue earned. Our goal is to break even on a year to year basis.

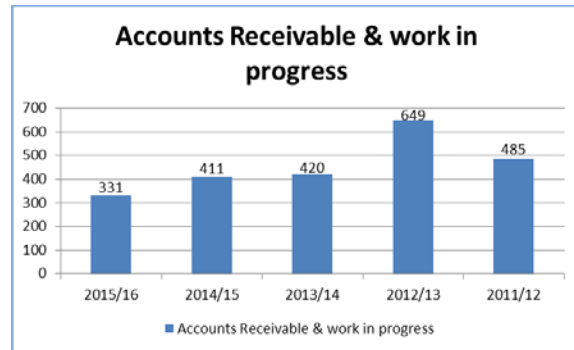
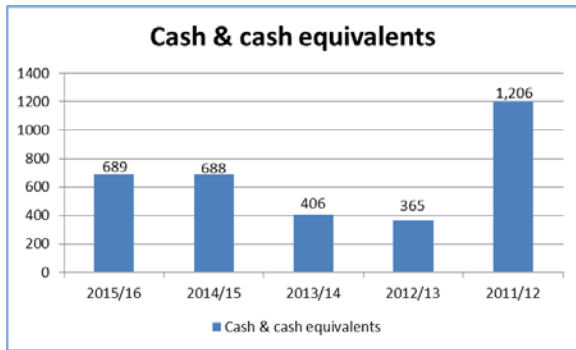
More detailed financial information is contained in our financial statements (see pages 35-58).

*Expressed in Cayman Islands Dollars and Thousands*



STATEMENT OF FINANCIAL POSITION TREND ANALYSIS ON SELECT ITEMS:

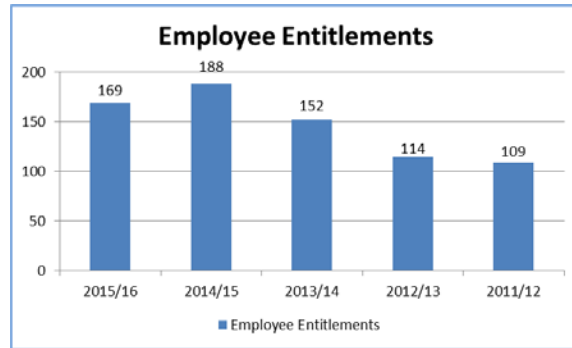
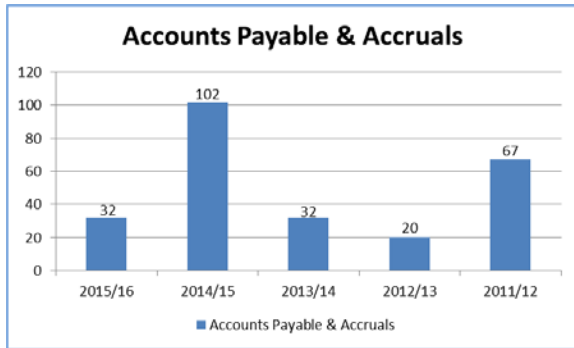
*Expressed in Cayman Islands Dollars and Thousands*



**Cash and cash equivalents analysis:** For the years 2011/12 to 2015/16 we have maintained a healthy cash position. We have attempted to maintain a cash position of 2 to 3 times our monthly expenses. Our cash position in 2011/12 grew as a result of large surpluses in both 2010/11 and 2011/12 years.

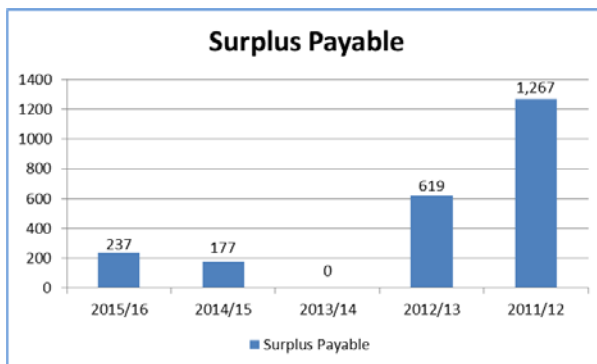
**Accounts receivable and work in progress analysis:** We manage our outstanding receivables to ensure there is only approximately 2 months outstanding. In 2012/13, the accounts receivable were higher than normal as a result of the election in May 2013. Many government entities were reorganised and their bills were not paid in a timely manner. While the amount of the accounts receivable balances owed to the Office from PAC, government ministries, portfolios, statutory authorities and government companies vary from year to year, all accounts are expected to be collected and we have never had to be concerned about an allowance for uncollectable accounts.

*Expressed in Cayman Islands Dollars and Thousands*



**Accounts payable and accruals:** Accounts payables and accruals are expected to vary from \$20k to \$40k in any given year. However, in 2011/12 and 2014/15, accounts payable were significantly higher than the normal range due to consultants doing more work in June in each of those fiscal years.

**Employee entitlements analysis:** accrued employee entitlements have increased from 2011/12 to 2015/16 by \$60k or 55%. This is a result of an increased work load with more performance audit reports being issued and additional effort to clear out the backlog of financial statements with relatively the same number of employees. During that time period, employees worked additional hours and built up their time off in lieu and annual leave balances. However, in the current fiscal year we have managed to reduce this liability by \$19k.



**Surplus payable analysis:** Surplus payable is directly related to the surplus amounts achieved in each fiscal year less any repayments made to Government. In accordance with section 67 and 39 3(f) of the PMFL, the PAC directed the Office to offset the surplus of \$142k for the year ending 30 June 2013 against the deficit of \$161k incurred for the year ending 30 June 2014. Therefore, as at 30 June 2014 the Office had no surplus payable. As at 30 June 2016 the Office surplus payable is made up of the 30 June 2015 and 2016 surpluses achieved as there was no repayment in the 2015/16 fiscal year.

## FINANCIAL PERFORMANCE RATIOS

Ratio	2015/16	2015/16	Variance
	Actual	Original / Final Budget	
	%	%	%
Current Assets: Current Liabilities (Working Capital)	234	227	7
Total Assets: Total Liabilities	253	236	17

These ratios indicate that we were able to meet our current obligations as at 30 June 2016. The total assets: total liabilities ratio at year end was better than anticipated due to purchase of fixed assets that was not anticipated and current liabilities being lower than the amounts budgeted.

## SENIOR MANAGEMENT REMUNERATION

The remuneration and benefits of the OAG senior management during 2015/16 are disclosed below in bands of CI\$5,000.

Post	Remuneration	Remuneration	Benefits	Benefits
	2015/16	2014/15	2015/16	2014/15
	\$000	\$000	\$000	\$000
Auditor General	65 to 70	125 to 130	10 to 15	30 to 35
Deputy Auditor General	125 to 130	110 to 115	25 to 30	25 to 30
Director Performance Audit	125 to 130	110 to 115	5 to 10	10 to 15
Director Financial Audit	100 to 105	105 to 110	15 to 20	20 to 25

Remuneration includes salary, allowances, and any additional remuneration paid during the financial year (2014/15: salary, allowances, any additional remuneration). Allowances paid during the year were acting, duty and motor car upkeep allowances. Benefits include pension, and health care insurance. The Auditor General resigned effective 31 October 2015 and any remaining leave balances were paid out at that time. The Deputy Auditor General became the Acting Auditor General from 1 October 2015 to 30 June 2016, which is attributable to the increase in his remuneration. In addition, the Director of Performance Audit reached retirement age and no longer receives any pension payments as benefits, but the remuneration of his salary was increased to compensate for this decrease in benefit. In addition, there was a 4% cost of living allowance provided to all staff at the beginning of the year and a 2.2% honorarium was given to staff at year end.

## PROFESSIONAL SERVICES AND CONSULTANTS

Vendor	Service	Fees & related costs(\$)
Consultant Performance Auditor	Healthcare Performance Audit	34,227
Healthy Futures	Healthcare Performance Audit	31,808
EY	Scrap Metal - review of contract award	29,110
Consultant Performance Auditor	Governance Audit – 3 SAGCs	23,463
Deloitte	IT work	22,711
Baker Tilly (Cayman) Ltd.	OAG Financial Statement Auditor	14,790
Consultant Performance Auditor	Construction of Schools Performance Audit	5,615
BDO	Revenue Performance Audit	5,022
Public Service Pension Board	Actuarial advisory services	4,660
Campbells	Legal Advice	4,274
Editor	Report Editing	2,227
Blackstone Chambers	Legal Advice	2,107

During the year we contracted with Healthy Futures, BDO and several individual consultants to help us conduct our performance audits. The cost of the performance auditors includes payments made directly to the performance auditors and their associated costs (i.e. work permit fees, airfare, hotel, car rental, etc.). EY reviewed the scrap metal contract award on our behalf. Deloitte finalized their review of the IT systems for our financial statement audit work and finalized their IT security work we commissioned them to do. Campbells provided us with legal advice for our performance audit work and in addition, we engaged Blackstone Chambers for other legal advice.

We continue to engage consultants to carry out performance audit work as our staff complement is not sufficient to carry out this work internally. This situation is unlikely to change unless we are able to increase the number of staff and build capacity for performance auditing.

Baker Tilly (Cayman) Ltd. continues to undertake the financial statement audit of the OAG.

## TRAVEL & SUBSISTENCE

The Office undertakes travel to: conduct audit work, enhance competencies and skills of staff, and to support the development of public audit across the Caribbean region and internationally. The Office is recognised as one of the leaders in public sector auditing, within the Caribbean region. As a result there is an increasing demand for the Office to support capacity building initiatives across the region and contribute more widely to the development of public sector auditing in international public auditing forums. The travel we have taken over the past two fiscal years is outlined below in Exhibit 3.

Exhibit 3 – Year to year comparison of travel	
Travel & Subsistence 2015-16 - \$20K	Travel & Subsistence 2014-15 - \$24K
<b>Bahamas</b> – Institute of Internal Auditors and public financial reporting speaking engagements	<b>Antigua</b> – ISSAI facilitator training workshop
<b>Canada</b> – Canadian Council of Legislative Auditor’s (CCOLA) conferences in Winnipeg, (general conference with public accounts forum) and in Montreal and Toronto (financial statement & performance audit symposium respectively)	<b>Canada</b> – Canadian Council of Legislative Auditor’s (CCOLA) conferences in St. Johns, Newfoundland (general conference with public accounts forum) and in Toronto (financial statement & performance audit symposium)
<b>Cayman Brac</b> – financial statement audit work	<b>Cayman Brac</b> – financial statement audit work
<b>Jamaica</b> – financial statement audit work for Ministry of Home Affairs	<b>Jamaica</b> - World Bank Oversight Legislative Conference
<b>Suriname</b> – Triennial CAROSAI Congress	<b>Norway</b> - IDI strategic priorities and planning meeting and INTOSAI CBC working group meeting
<b>Sweden</b> - INTOSAI Capacity Building Committee annual meeting	<b>Peru</b> – INTOSAI CDC workshop
	<b>Trinidad</b> – ISSAI implementation workshop

## PHYSICAL CAPITAL MEASURES

Measure	2015/16		
	2015/16 Actual	Original/Final Budget	Variance
Value of total assets	1,107	1,162	(55)
Asset replacements: total assets	6%	2%	4%
Book value of assets: initial cost of those assets	60%	36%	24%
Depreciation: cash flow on asset purchases	18%	64%	(46%)
Changes to asset management policies	None	None	-

The Office’s total assets were under budget by \$55k as a result of accounts receivable being less than budget due to actual collection of outstanding receivables being better than we had anticipated. This was offset by an increase in fixed asset purchases from what was budgeted for. The book value of assets to initial cost of those assets was 24% more than anticipated due to the replacement of our workstations that was not budgeted for. However, the depreciation to cash flow on asset purchases was under budget by 46% due to the purchase of the workstations late in the fiscal year, which therefore had little impact on the depreciation incurred for the year.

## HUMAN CAPITAL MEASURES

Measure	2015/16 Actual	2015/16 Original / Final Budget	Variance
Total full time equivalent staff employed at 30 June	17	22	(5)
Staff turnover (%)			
Senior Managers	25%	25%	-
Professional and technical staff	16%	25%	(9%)
Clerical and labourer staff	-	0%	-
<b>Average length of service</b> (number of years in current position)			
Senior Managers	12	7	5
Professional and technical staff	6	7	(1)
Clerical and labourer staff	8	5	3

Changes to personnel management system:

No changes to personnel management system

The former Auditor General resigned effective October 2015, which accounts for the turnover at the senior manager level. At the professional and technical staff positions (Audit Managers & Audit Project Leaders), we had two employees resign during the year which resulted in a variance of (9%) as we anticipated three resignations. For clerical and labourer staff, we had no resignations which was in line with our expectations. However, at year end we had the following positions not filled: Auditor General, one Audit Manager, one Audit Project Leader and two Auditor positions.

## PROFILE OF OAG STAFF

The OAG has a diverse staffing profile with seven nationalities represented.

Nationality	Senior Management	Auditors	Administrative
Caymanian	-	1	2
Barbadian	1	3	-
Canadian	2	-	-
Filipino	-	3	-
Ghana	-	1	-
Guyanese	-	1	-
Jamaican	-	3	-

We have ten male and seven female members of staff.

Gender	Senior Management	Auditors	Administrative
Female	-	5	2
Male	3	7	-



## RISK MANAGEMENT

Risk management is a key element of the Office's management framework that meets the requirements set out in the PMFL as well as auditing standards. The OAG manages risks for the achievement of both financial and operational objectives. The senior management team ensures that the Office's risk register is kept under review and that there are appropriate management practices in place to mitigate the risks that had been identified.

The Office has identified 12 risks and has categorized these risks across seven broad categories: 1) strategic, 2) compliance, 3) operational, 4) financial, 5) employees, 6) environmental, and 7) health and safety. After considering the controls in place to help mitigate these risks, we also considered the likelihood and impact of them occurring. After this assessment two risks were considered high, five moderate, and five low. The two high risks were:

- the security of the OAG's files, communications and information is compromised
- the financial resources available to the OAG affect its ability to deliver its mandate

For 2015/16, operational risks were effectively managed and mitigated with no instances of significant events or deviation from operational plans.

Evidence of how the risks are managed can be found in the Office's most recent strategic plan ([OAG 2015 to 2019 Strategic Plan: Delivering Value](#)).





## Financial Statements

30 June 2016

# Office of the Auditor General Cayman Islands

## Statement of Responsibility for Financial Statements

These financial statements have been prepared by the Office of the Auditor General in accordance with the provisions of the *Public Management and Finance Law (2013 Revision)*.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law (2013 Revision)*.

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

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

The financial statements fairly present the financial position, financial performance and cash flows of the Office of the Auditor General for the financial year ended 30 June 2016.

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

- a) completely and reliably reflect the financial transactions of the Office of the Auditor General for the year ended 30 June 2016;
- b) fairly reflect the financial position as at 30 June 2016 and the performance for the year ended 30 June 2016;
- c) comply with International Public Sector Accounting Standards as set out by International Public Sector Accounting Standards Board under the responsibility of the International Federation of Accountants.

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



Sue Winspear, CPFA  
Auditor General

DATE: 30 September 2016



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

DATE: 30 September 2016



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Cayman Islands  
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Fax: +1 345 946 7854  
[www.bakertillycayman.com](http://www.bakertillycayman.com)

## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the Office of the Auditor General (the "Office") which comprise the statement of financial position at 30 June 2016, the related statements of financial performance, changes in net assets/equity and cash flows for the year then ended, and the notes to the financial statements as presented on pages 35 to 58 of the annual report.

#### **Management's responsibility for the financial statements**

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

#### **Auditors' 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 auditors' 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 Office'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 Office'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.

**Audit opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General at 30 June 2016 and its financial performance, changes in net assets/equity and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards.

*Baker Tilly (Cayman) Ltd.*

**Baker Tilly (Cayman) Ltd.**

**30 September 2016**

**Grand Cayman, Cayman Islands**

# Office of the Auditor General Cayman Islands

## Statement of Financial Position

### As at 30 June 2016

(Expressed in Cayman Islands Dollars)

2014/15 Actual \$000		Note	2015/16 Actual \$000	2015/16 Original/Final Budget \$000	2015/16 Variance from Original Budget \$000
	Current assets				
688	Cash and cash equivalents	1	689	687	2
411	Accounts receivable & work in progress	2	331	428	(97)
3	Prepayments		3	2	1
<b>1,102</b>	<b>Total current assets</b>		<b>1,023</b>	<b>1,117</b>	<b>(94)</b>
	Non-current assets				
34	Property, plant and equipment	3	84	45	39
<b>34</b>	<b>Total non-current assets</b>		<b>84</b>	<b>45</b>	<b>39</b>
<b>1,136</b>	<b>Total assets</b>		<b>1,107</b>	<b>1,162</b>	<b>(55)</b>
	Current liabilities				
102	Accounts payable and accruals	4	32	28	4
188	Employee entitlements	5	169	174	(5)
177	Surplus payable	6	237	291	(54)
<b>467</b>	<b>Total current liabilities</b>		<b>438</b>	<b>493</b>	<b>(55)</b>
<b>467</b>	<b>Total liabilities</b>		<b>438</b>	<b>493</b>	<b>(55)</b>
<b>669</b>	<b>Net assets</b>		<b>669</b>	<b>669</b>	<b>-</b>
	Net assets/equity				
688	Contributed capital*	7	688	688	-
(19)	Accumulated surpluses/(deficits)*		(19)	(19)	-
<b>669</b>	<b>Total net assets/equity</b>		<b>669</b>	<b>669</b>	<b>-</b>

\* See Statement of Changes in Net Assets/Equity on page 37

The accounting policies and notes on pages 39 to 58 form part of these financial statements

# Office of the Auditor General Cayman Islands

## Statement of Financial Performance

### As at 30 June 2016

(Expressed in Cayman Islands Dollars)

2014/15 Actual		Note	2015/16 Actual	2015/16 Original / Final Budget	2015/16 Variance from Original Budget
\$000			\$000	\$000	\$000
<b>Revenue</b>					
632	Audit services provided to Public Accounts Committee	8	500	664	(164)
1,921	Audit services provided to other government agencies	8	1,724	2,016	(292)
<b>2,553</b>	<b>Total revenue</b>		<b>2,224</b>	<b>2,680</b>	<b>(456)</b>
<b>Expenses</b>					
1,816	Personnel costs	9	1,765	1,926	(161)
548	Operating expenses	10	383	449	(66)
12	Depreciation	3	11	14	(3)
-	Loss on disposal of assets		4	-	4
<b>2,376</b>	<b>Total expenses</b>		<b>2,163</b>	<b>2,389</b>	<b>(226)</b>
<b>177</b>	<b>Net surplus for the year</b>		<b>61</b>	<b>291</b>	<b>(230)</b>

The accounting policies and notes on pages 39 to 58 form part of these financial statements.



**Office of the Auditor General Cayman Islands**  
**Statement of Changes in Net Assets/Equity**  
**Year Ended 30 June 2016**  
(in Cayman Islands Dollars)

2014/15 Actual			2015/16 Contributed Capital (Note 7)	2015/16 Accumulated Surpluses / (Deficits)	2015/16 Total Net Assets / Equity	2015/16 Total Net Assets/Equity Original/Final Budget	2015/16 Total Net Assets/Equity Variance From Original Budget
\$000	Note	\$000	\$000	\$000	\$000	\$000	\$000
669		688	(19)	669	669	-	
	<b>Opening Balance</b>						
177		-	61	61	291	(230)	
	Net surplus for the year						
-		-	-	-	-	-	
	Repayment of net surplus						
	<b>6, 7</b>						
(177)		-	(61)	(61)	(291)	230	
	Surplus payable offset against accumulated deficits						
	<b>6</b>						
<b>669</b>		<b>688</b>	<b>(19)</b>	<b>669</b>	<b>669</b>	<b>-</b>	
	<b>Closing balance</b>						

The accounting policies and notes on pages 39 to 58 form part of these financial statements.

# Office of the Auditor General Cayman Islands

## Cash Flow Statement

### Year Ended 30 June 2016

(in Cayman Islands Dollars)

2014/15 Actual		2015/16 Actual	2015/16 Original/Final Budget	2015/16 Variance from Original Budget
\$000	Note	\$000	\$000	\$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts:				
738		518	664	(146)
1,824		1,785	1,992	(207)
Payments:				
(1,780)		(1,784)	(1,911)	127
(477)		(454)	(449)	(5)
<b>305</b>	<b>13</b>	<b>65</b>	<b>296</b>	<b>(231)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
(23)		(64)	(22)	(42)
<b>(23)</b>		<b>(64)</b>	<b>(22)</b>	<b>(42)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
-	<b>6</b>	-	(62)	62
<b>-</b>		<b>-</b>	<b>(62)</b>	<b>62</b>
282		1	212	(211)
406		688	475	213
<b>688</b>	<b>1</b>	<b>689</b>	<b>687</b>	<b>2</b>

The accounting policies and notes on pages 39 to 58 form part of these financial statements.

# Office of the Auditor General Cayman Islands

## Notes to the Financial Statements

### Year Ended 30 June 2016

(in Cayman Islands Dollars)

#### BACKGROUND INFORMATION

The Office of the Auditor General (the “Office”) is established under the Cayman Islands Constitution Order 2009 Section 114 as an independent public office. Its mandate and responsibilities are prescribed in sections 58 to 69 of the *Public Management and Finance Law (2013 Revision)* (“PMFL”). Revenue is derived from audit services provided to the Cayman Islands Government (“the Government”). The Office is dependent on this source of income to continue its operations. Some of the audit services are undertaken by private sector auditors appointed by the Auditor General.

The Office is located on the third floor, Anderson Square, Shedden Road, George Town, Grand Cayman. As at 30 June 2016, the Office had 17 employees (2015: 18).

#### GENERAL ACCOUNTING POLICIES

##### BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Public Sector Accounting Standards (“IPSAS”) issued by the International Federation of Accountants and its International Public Sector Accounting Standards Board using the accrual basis of accounting.

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

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

##### REPORTING PERIOD

The reporting period is the twelve months ended 30 June 2016.

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

**GENERAL ACCOUNTING POLICIES (CONTINUED)**

**BUDGET AMOUNTS**

The 2015/16 original budget amounts were prepared using the accrual basis of accounting and the accounting policies have been consistently applied with the actual financial statements presentation. The 2015/16 original budget was presented in the 2015/16 Annual Budget Statement of the Government of the Cayman Islands and approved by the Legislative Assembly on 19 June 2015. There were no 2015/16 supplemental budgets submitted for approval to the Legislative Assembly.

**JUDGEMENT AND ESTIMATES**

The preparation of financial statements in conformity with IPSAS requires judgments, estimates, and assumptions affecting the application of policies and reported amounts of assets and liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the reporting period that is affected by those revisions. As at 30 June 2016 and 30 June 2015, no reliable fair value estimate of contributed goods and services provided to the Office by Government entities could be made and therefore no estimated amounts are recorded in these financial statements.

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
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**SPECIFIC ACCOUNTING POLICIES**

**ASSETS**

**Cash and cash equivalents**

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

**Accounts Receivable**

Accounts receivable are recognised initially at fair value and are subsequently measured at amortised cost less a provision for impairment. A provision for impairment of accounts receivable 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 collection delays are considered indicators that the receivables 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 accounts receivable are deemed uncollectible, they are written-off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written-off are recognised in future periods as revenue in the year in which it is collected.

**Work in Progress**

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

**Property, Plant and Equipment**

Property, plant and equipment are carried at historical cost (which includes acquisition costs) 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 11.11% (9 years)
- Computer Equipment                      33.33% (3 years)
- Office Equipment                              10% (10 years) to 33.33% (3 years)
- Leasehold Improvements                  Over the term of the lease

**Office of the Auditor General Cayman Islands**  
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**SPECIFIC ACCOUNTING POLICIES (CONTINUED)**

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

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

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**LIABILITIES**

**Accounts Payable**

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

**Employee Benefits**

*a) Annual Leave entitlement*

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

*b) Pension Obligations*

Pension contributions for employees of the Office are paid to the Public Service Pensions Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board and is operated as a multi-employer non-contributory fund, whereby the employer pays both employer and employee contributions. Pension contributions are included in personnel costs in the statement of financial performance. In 2015/16 and 2014/15 all eligible employees of the Office belonged to the defined contribution plan. There were no employees in 2015/16 (2014/15: one employee) who reached retirement age and are therefore no longer eligible to participate in the defined contribution plan.

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
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**SPECIFIC ACCOUNTING POLICIES (CONTINUED)**

**LIABILITIES (CONTINUED)**

**Surplus Payable**

Pursuant to the *Public Management & Finance Law (2013 Revision)* section 39 (3)(f) the Office may “retain such part of its net operating surplus as is determined by the Minister of Finance”. Under section 67 of the PMFL every reference to a minister is to be interpreted as a reference to Public Accounts Committee (PAC). When surpluses arise, these are booked as a payable to the Cayman Islands Government unless the PAC directs that the surplus can be retained.

**CONTRIBUTED CAPITAL**

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

**REVENUE**

**Audit services revenue**

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

**EXPENSES**

**General**

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

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
**Year Ended 30 June 2016**  
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**SPECIFIC ACCOUNTING POLICIES (CONTINUED)**

**EXPENSES (CONTINUED)**

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



**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
**Year Ended 30 June 2016**  
(in Cayman Islands Dollars)

**NOTE 1: CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include a non-interest bearing operating and payroll account held in the name of the Office of the Auditor General at the Royal Bank of Canada in the Cayman Islands.

<b>2014/15</b>		<b>2015/16</b>	<b>2015/16</b>	<b>2015/16</b>
<b>Actual</b>		<b>Actual</b>	<b>Original/Final</b>	<b>Actual vs.</b>
<b>\$000</b>		<b>\$000</b>	<b>Budget</b>	<b>Original Budget</b>
			<b>\$000</b>	<b>\$000</b>
688	Bank accounts	689	687	2
<b>688</b>	<b>Total cash and cash equivalents</b>	<b>689</b>	<b>687</b>	<b>2</b>

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

Cash and cash equivalents are over budget by a nominal \$2k, which is a result of several factors that netted off to where the overall outcome was a difference of only \$2k. This is shown in the Cash Flow Statement.

The increase in cash and cash equivalents of \$1k from the prior year is a result of operational cash inflows of \$65k, less outflows of cash for purchases of property, plant and equipment of \$64k. See also note 13 for reconciliation of operating surplus to cash flows from operating activities.

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

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

<b>2014/15 Actual</b>		<b>2015/16 Actual</b>	<b>2015/16 Original/Final Budget</b>	<b>2015/16 Actual vs. Original Budget</b>
<b>\$000</b>		<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
-	Audit services to PAC (accounts receivable)	-	85	(85)
69	Audit services to PAC (work in progress)	50	80	(30)
148	Audit services to other government entities (accounts receivable)	30	63	(33)
194	Audit services to other government entities (work in progress)	251	200	51
<b>411</b>	<b>Total gross accounts receivable &amp; work in progress</b>	<b>331</b>	<b>428</b>	<b>(97)</b>
-	Less: provision for doubtful debts	-	-	-
<b>411</b>	<b>Total net accounts receivable &amp; work in progress</b>	<b>331</b>	<b>428</b>	<b>(97)</b>

Aging Analysis of Accounts Receivable & Work in Progress

<b>2014/15 Actual</b>	<b>Accounts receivable &amp; work in progress</b>	<b>2015/16 Actual</b>	<b>2015/16 Original/Final Budget</b>	<b>2015/16 Actual vs. Original Budget</b>
<b>\$000</b>		<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
263	Current (WIP)	301	280	21
53	Past Due 1-30 days	11	120	(109)
90	Past Due 31-60 days	-	28	(28)
4	Past Due 61-90 days	7	-	7
1	Past Due 91-180 days	6	-	6
-	Past Due 181-360 days	6	-	6
-	361 + Days	-	-	-
<b>411</b>	<b>Total</b>	<b>331</b>	<b>428</b>	<b>(97)</b>

**Office of the Auditor General Cayman Islands**  
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**NOTE 2: ACCOUNTS RECEIVABLE & WORK IN PROGRESS (CONTINUED)**

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

***Accounts receivable & work in progress for audit services provided to PAC:***

Actual to budget: the Office expected PAC to have outstanding accounts receivable and work in progress balances of \$165k at year end. However, the balance owing by PAC to the Office was \$115k less than budget. This decrease from budget was a result of PAC being up to date on its payments and less work being performed in May and June 2016 than was anticipated.

Current year to prior year actual: for the year ending 30 June 2016 the overall work in progress balance decreased from the prior year by \$19k due to less work being performed by consultants in the latter months of the year.

***Accounts receivable & work in progress for audit services provided to other government entities:***

Actual to budget: the Office's accounts receivable and work in progress combined were \$18k higher than budget as a result of May and June 2016 billings submitted together. This resulted in work in progress being higher than budget by \$51k. However, the accounts receivable balance at 30 June 2016 was less than budget by \$33k due to more effective collection of outstanding receivables than anticipated in the budget.

Current year to prior year actual: accounts receivable and work in progress were \$61k less than the prior year. This decrease was a result of government entities paying their outstanding balances in a timelier manner during the year resulting in a decrease of \$118k from accounts receivables from the prior year. However, work in progress as at 30 June 2016 increased from the prior year by \$57k because two months were billed in July 2016 compared to one in the prior year.

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

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

	<b>Furniture &amp; Fittings \$000</b>	<b>Office Equipment \$000</b>	<b>Computer Equipment \$000</b>	<b>Leasehold Improvements \$000</b>	<b>Total \$000</b>	<b>Original/Final Budget \$000</b>	<b>Actual vs. Original Budget \$000</b>
<u>Cost</u>							
At 1 July 2014	66	28	41	4	139	138	1
Additions	3	6	1	13	23	22	1
Disposals	(15)	(7)	(18)	(4)	(44)	(6)	(38)
At 30 June 2015	54	27	24	13	118	154	(36)
<u>Accumulated Depreciation</u>							
At 1 July 2014	56	27	29	4	116	84	32
Accumulated depreciation on disposals	(15)	(7)	(18)	(4)	(44)	(6)	(38)
Depreciation charge for the year	3	1	6	2	12	19	(7)
At 30 June 2015	44	21	17	2	84	97	(13)
<b>Net book value at 30 June 2015</b>	<b>10</b>	<b>6</b>	<b>7</b>	<b>11</b>	<b>34</b>	<b>57</b>	<b>(23)</b>
<u>Cost</u>							
At 1 July 2015	54	27	24	13	118	122	(4)
Additions	57	1	5	1	64	22	42
Disposals	(42)	-	-	-	(42)	(19)	(23)
At 30 June 2016	69	28	29	14	140	125	15
<u>Accumulated Depreciation</u>							
At 1 July 2015	44	21	17	2	84	85	(1)
Accumulated depreciation on disposals	(39)	-	-	-	(39)	(19)	(20)
Depreciation charge for the year	2	1	5	3	11	14	(3)
At 30 June 2016	7	22	22	5	56	80	(24)
<b>Net book value at 30 June 2016</b>	<b>62</b>	<b>6</b>	<b>7</b>	<b>9</b>	<b>84</b>	<b>45</b>	<b>39</b>

**Office of the Auditor General Cayman Islands**  
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**NOTE 3: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

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

In 2015/16, the Office was over budget by \$42k for additions and over budget by \$23k for disposal of property, plant and equipment. During the year, the office purchased new office work stations and disposed of the old equipment. The old work stations were transferred to the Department of Environmental Health. All other asset categories were in line with the anticipated budget.

**NOTE 4: ACCOUNTS PAYABLE & ACCRUALS**

2014/15 Actual \$000		2015/16 Actual \$000	2015/16 Original/Final Budget \$000	2015/16 Actual vs. Original Budget \$000
88	Trade creditors	17	14	3
14	Accruals	15	14	1
<b>102</b>	<b>Total</b>	<b>32</b>	<b>28</b>	<b>4</b>

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

**Trade creditors:** Trade creditors' payable was in line with the budget and were the typical types of payables we have from month to month. The decrease of \$71k in trade creditors from the prior year was primarily due to the significant decrease of professional fees owed to consultants in June 2015.

**Accruals:** The Office's accruals have been consistent with budget and the actual from the prior year as the audit fees have remained fairly consistent.

**Office of the Auditor General Cayman Islands**  
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**NOTE 5: EMPLOYEE ENTITLEMENTS (CURRENT)**

2014/15 Actual	Current employee entitlements are represented by:	2015/16 Actual	2015/16 Original/Final Budget	2015/16 Actual vs. Original Budget
\$000		\$000	\$000	\$000
131	Annual leave	122	116	6
57	Time off in Lieu	47	58	(11)
<b>188</b>	<b>Total employee entitlements</b>	<b>169</b>	<b>174</b>	<b>(5)</b>

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

Actual annual leave was only \$6k greater than budget, but \$9k less than last year's actual due to encouraging employees to reduce their leave time during the year. Time off in lieu was under budget by \$11k and \$10k less from last year's actual due to employees using their time off in lieu.

**NOTE 6: SURPLUS PAYABLE**

2014/15 Actual \$000		2015/16 Actual \$000	2015/16 Original/Final Budget \$000	2015/16 Actual vs. Original Budget \$000
177	Surplus payable	237	291	(54)
<b>177</b>	<b>Total</b>	<b>237</b>	<b>291</b>	<b>(54)</b>

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

Actual to budget: The Office budgeted to have a surplus of \$291k at 30 June 2016, but only achieved a \$61k surplus. In addition, the Office planned to pay the forecasted surplus payable for 2014/15 of \$62k to the Government which was not done. The remaining \$114k increase in surplus achieved in 2014/15 was not budgeted for when preparing the budget.

Current year to prior year actual: The surplus payable increased over the prior year by the amount relating to the current year surplus.

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
**Year Ended 30 June 2016**  
(in Cayman Islands Dollars)

**NOTE 7: CONTRIBUTED CAPITAL**

According to the accounting policies of the Cayman Islands Government, goods and services provided between core government entities do not incur a realizable charge. The Office was unable to estimate the fair value of contributed goods and services received during the year due to the lack of accounting systems to record the costs of these transactions in accordance with the accounting standards.

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

<b>2014/15 Actual \$000</b>		<b>2015/16 Actual \$000</b>	<b>2015/16 Original/Final Budget \$000</b>	<b>2015/16 Actual vs. Original Budget \$000</b>
103	Opening net assets/equity 2004/05	103	103	-
404	Equity injections: 2004/05: \$222k 2005/06: \$ 5k 2007/08: \$177k	404	404	-
181	Contributed goods & services (2010/11)	181	181	-
-	Repayment of surpluses	-	-	-
<b>688</b>	<b>Total contributed capital</b>	<b>688</b>	<b>688</b>	<b>-</b>

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
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**NOTE 8: REVENUE**

2014/15 Actual \$000		2015/16 Actual \$000	2015/16 Original/Final Budget \$000	2015/16 Actual vs. Original Budget \$000
	<b>Revenue</b>			
632	Audit services provided to Public Accounts Committee	500	664	(164)
1,921	Audit services provided to other government agencies	1,724	2,016	(292)
<b>2,553</b>	<b>Total revenue</b>	<b>2,224</b>	<b>2,680</b>	<b>(456)</b>

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

The PAC was billed \$500k, which was \$164k lower than the budget amount of \$664k approved by the Legislative Assembly. This resulted from a decrease in the staff complement during the year and resulting in less time available to earn the fees than we had budgeted. The Office also restructured its organisation to use more staff on performance audits thereby placing less reliance on consultants. This resulted in a reduction of billings of \$132k to PAC than the prior year.

Audit services provided to other government agencies was \$292k less than budget due to a decrease in staff complement during the year. This resulted in a larger backlog of financial statement audits than planned. Our revenues were also lower than last year's actual by \$197k as a result of a decrease in the staff complement during the year and the consequential reduction of charge out time.



**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
**Year Ended 30 June 2016**  
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**NOTE 9: PERSONNEL COSTS**

2014/15 Actual \$000		2015/16 Actual \$000	2015/16 Original/Final Budget \$000	2015/16 Actual vs. Original Budget \$000
1,534	Salaries, overtime & allowances (including employee pension contributions)	1,507	1,580	(73)
196	Health insurance	176	221	(45)
77	Employer pension expense	71	78	(7)
9	Other personnel costs	11	47	(36)
<b>1,816</b>	<b>Total personnel costs</b>	<b>1,765</b>	<b>1,926</b>	<b>(161)</b>

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

***Salaries, overtime & allowances:***

Actual to budget: salaries were under budget by \$73k, which was mainly due to the Auditor General post not being filled for approximately two thirds of the year and other positions within the Office being vacant during the year. Motor car allowance was also under budget by \$6k and there was a decrease of \$24k from budget for accrued annual leave and compensatory time. These decreases were offset by increases in payroll expenses from budget for the following areas: acting allowance (\$15k); duty allowance (\$10k); and overtime (\$20k).

Current year to prior year actual: salaries were only \$27k lower than the prior year due to being understaffed; however, these saving were offset by a 4% cost of living award effective 1 July 2015 and a one-time honorarium award of 2.2% (\$25k) paid to staff in June 2016.

***Health insurance:*** Health insurance benefits were \$45k less than budget and \$20k less than the prior year due to being understaffed during the current fiscal year and planned expenditures for changes in employees' status that did not transpire.

***Other personnel costs:*** These costs pertain to recruitment and leave passages. The Office was under budget by \$36k as a result of staff turnover which did not require as much costs to relocate personnel back to their home countries. In addition, the Office did not incur as much recruitment expenses as planned for the new Auditor General. The current year expenses were in line with prior year actuals.

**Office of the Auditor General Cayman Islands**  
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**NOTE 10: OPERATING EXPENSES**

2014/15 Actual \$000		2015/16 Actual \$000	2015/16 Original/Final Budget \$000	2015/16 Actual vs. Original Budget \$000
300	Professional fees	167	150	17
105	Operating leases	96	104	(8)
20	Utilities	14	27	(13)
17	Training	12	23	(11)
24	Travel & subsistence	20	26	(6)
30	Other goods and services	26	27	(1)
14	Audit fees	15	14	1
9	Legal fees	6	35	(29)
15	Software licensing fees	11	21	(10)
10	Janitorial services	11	12	(1)
3	Insurance	2	5	(3)
1	Computer and communication supplies	3	5	(2)
<b>548</b>	<b>Total operating expenses</b>	<b>383</b>	<b>449</b>	<b>(66)</b>

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

**Professional Fees:** Professional fees were over the original budget by \$17k as a result of greater use of consultants to conduct performance audits and assist with IT work on the financial statement audits.

However, the 2015/16 actual amount was \$133k less than last year's actual due to less consultants being used on performance audits during the fiscal year and the use of Office staff. In addition, a significant amount of the work for the performance audits issued in 2015/16 had been conducted in the previous year.

**Training:** The Office was under budget due to fewer staff during the year resulting in less fees being paid for government professional development week and other training and the current year actual was \$5k less than prior year due to the same reasons. In addition, \$5k was budgeted for CPA studies, which was not utilized by any staff during the year.

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
**Year Ended 30 June 2016**  
(in Cayman Islands Dollars)

**NOTE 10: OPERATING EXPENSES (CONTINUED)**

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

**Legal Fees:** Legal fees were \$29k under budget and \$3k less than the prior year actual as there was less need for legal advice on performance audits.

**Software Licensing Fees:** Software licensing fees were \$4k less than the prior year actual, and \$10k under budget, due to not purchasing a new software package.

**NOTE 11: COMMITMENTS – PROPERTY LEASE**

The Office has a non-cancellable accommodation lease with Beaufort Investments Ltd. for leased property on the third floor, Anderson Square, Shedden Road, George Town. In September 2014, the Office signed a 5 year lease effective from 1 November 2014 and expiring on 31 October 2019. The Office must provide 6 months’ notice to the Landlord for a new lease to be negotiated for a further five years at an agreed upon open market rental rate.

Type	One year or less \$000	One to five years \$000	Over five years \$000	2016 Total \$000	2015 Total \$000
Non-cancellable accommodation lease	95	221	-	316	411

**NOTE 12: CONTINGENT LIABILITIES**

At 30 June 2016, there are no quantifiable and non-quantifiable contingent liabilities (30 June 2015: no contingent liabilities).

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
**Year Ended 30 June 2016**  
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**NOTE 13: RECONCILIATION OF NET SURPLUS TO CASH FLOWS GENERATED FROM OPERATING ACTIVITIES**

2014/15 Actual \$000		2015/16 Actual \$000	2015/16 Original/Final Budget \$000	2015/16 Actual vs. Original Budget \$000
177	Net surplus	61	291	(230)
	<b>Non-cash movements</b>			
12	Depreciation	11	14	(3)
106	Increase/(decrease)in payables/accruals	(90)	15	(105)
9	Decrease/(increase) in receivables	79	(24)	103
1	Decrease/(increase) in prepayments	-	-	-
-	Loss on disposal of assets	4	-	4
<b>305</b>	<b>Net cash flows from operating activities</b>	<b>65</b>	<b>296</b>	<b>(231)</b>

**NOTE 14: RELATED PARTY TRANSACTIONS**

The Office is controlled by the Cayman Islands Government and therefore government ministries, portfolios, statutory authorities, government companies and other government offices are considered related parties. As indicated in the approved 2015/16 and 2014/15 Annual Budget Statements of Government, there were no inter-agency charges between core government entities, except for audit services revenue. As a result, the Office was unable to make an estimate of the fair value of contributed goods and services received for the 2015/16 and 2014/15 fiscal years as described in note 7.

**KEY MANAGEMENT PERSONNEL**

As at 30 June 2016 there were three senior managers in the Office (2015: 4). Remuneration includes: regular salary, pension contributions, health insurance contributions, acting and duty allowance, and motor car upkeep. Total remuneration for senior management in 2015/16 was \$492k (2014/15: \$547k). There were no loans made to key management personnel or their close family members in 2015/16 or in 2014/15.

**Office of the Auditor General Cayman Islands**  
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(in Cayman Islands Dollars)

**NOTE 15: FINANCIAL RISK MANAGEMENT**

The Office is exposed to a variety of financial risks including credit risk and liquidity risk. The Office's risk management policies are designed to identify and manage these risks, to set appropriate risk limits and controls, to monitor the risks and adhere to limits by means of up to date and reliable information systems. These risks are managed as required by the *Financial Regulations (2013 Revision)*.

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CREDIT RISK

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

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

The Office is also exposed to a significant concentration of credit risk in relation to accounts receivable, all of which are due from other Government entities. No credit limits have been established. As at 30 June 2016 and 2015, no provision for doubtful debts has been established as none of these assets are impaired and management considers these debts to be recoverable in full. Notwithstanding the concentration risk in relation to accounts receivable, management does not consider the Office to be exposed to significant credit risk as all of the counterparties are other government entities.

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

**Office of the Auditor General Cayman Islands**  
**Notes to the Financial Statements**  
**Year Ended 30 June 2016**  
(in Cayman Islands Dollars)

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

**LIQUIDITY RISK**

Liquidity risk relates to the Office's ability 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 in a timely basis. Management manages liquidity risk through monitoring cash flows from debtors, paying creditors on their due dates, and if the circumstances required it to obtain funding from Government to temporarily fund any shortfalls, the Office would have with its own cash flows. As at 30 June 2016 and 2015, all of the financial liabilities were due within three months of the year end dates.

**NOTE 16: FINANCIAL INSTRUMENTS – FAIR VALUES**

As at 30 June 2016 and 2015, the carrying value of cash and cash equivalents, accounts receivable, work in progress, accounts payable, employee entitlements, and surplus payable upon demand approximate their fair value due to their relative short-term maturities.

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

**NOTE 17: SUBSEQUENT EVENT**

A new Auditor General was appointed effective date 8 July 2016.

# APPENDIX 1 – ENTITIES AUDITED BY THE AUDITOR GENERAL

Under the PMFL the Auditor General is responsible for carrying out the audits of all public sector entities. The Office relies on the work performed by private sector audit firms for a number of its financial statements audits. The following list provides details about who carried out the audits during 2015/16.

Entity	Auditor
Cabinet Office	Office of the Auditor General
Information Commissioners Office	KPMG
Judicial Administration	KPMG
Ministry of Community Affairs	Office of the Auditor General
Ministry of District Administration, Tourism and Transport	Office of the Auditor General
Ministry of Education, Employment and Gender Affairs	Office of the Auditor General
Ministry of Finance and Economic Development	Office of the Auditor General
Ministry of Financial Services, Commerce and Environment	Office of the Auditor General
Ministry of Health, Youth, Sports and Culture	Office of the Auditor General
Ministry of Home Affairs	Office of the Auditor General
Ministry of Planning, Lands, Agriculture, Housing and Infrastructure	Office of the Auditor General
Office of the Complaints Commissioner	KPMG
Office of the Director of Public Prosecutions	KPMG
Portfolio of the Civil Service	Office of the Auditor General
Portfolio of Legal Affairs	KPMG
Auditors Oversight Authority	Office of the Auditor General
Cayman Airways Limited	PWC
Cayman Islands Airport Authority	Office of the Auditor General
Cayman Islands Development Bank	Office of the Auditor General
Cayman Islands Monetary Authority	Office of the Auditor General
Cayman Islands National Museum	EisnerAmper
Cayman National Cultural Foundation	KPMG
Cayman Islands Stock Exchange	Deloitte

<b>Entity</b>	<b>Auditor</b>
Cayman Turtle Farm (1983) Ltd.	KPMG
Children & Youth Services Foundation	Office of the Auditor General
CINICO	KPMG
Civil Aviation Authority	PwC
Electricity Regulatory Authority	Office of the Auditor General
Health Services Authority	Office of the Auditor General
Information and Communications Technology Authority	Office of the Auditor General
Maritime Authority of the Cayman Islands	Office of the Auditor General
National Drug Council	Office of the Auditor General
National Gallery of the Cayman Islands	EisnerAmper
National Housing Development Trust	Office of the Auditor General
National Roads Authority	Office of the Auditor General
Port Authority of the Cayman Islands	Office of the Auditor General
Public Service Pensions Board	Office of the Auditor General
Segregated Insurance Fund	Office of the Auditor General
Sister Islands Affordable Housing Development Corporation	Office of the Auditor General
Tourism Attractions Board	Office of the Auditor General
University College of the Cayman Islands	Office of the Auditor General
Water Authority of the Cayman Islands	KPMG



## APPENDIX 2 - REPORTS ISSUED AND IN PROGRESS DURING 2015/16

### Reports Issued during 2015/16

Report	Date of Issue	Summary
Management of Nation Building Programme	July 2015	The report examined whether the Government managed the Nation Building Programme effectively and with due regard to value-for-money, accountability and transparency; and whether the programme recipients used funds for the intended purposes. The audit found that there was an ineffective control framework in place for the operation of the Programme. In addition, the audit found there were no standard Government-wide policies and practices in place for this kind of programme during the audited time period. There was no accountability for how the funds were used and that, in some cases, funds appear to have been used for purposes other than “nation building”. The audit concluded that senior government officials who should have been involved in the management of this Programme failed to carry out the roles required by their employment and the laws they were required to uphold.
Collecting Government Revenues	September 2015	The report examines whether the government framework for the collection of revenues is adequate and managed effectively to ensure that the Government meets its objectives. In most cases Government collects revenue in accordance with legislation; however, Government needs to enhance its management practices, processes and systems to ensure that it collects revenues more efficiently to achieve better value-for-money.
Government IT Security	September 2015	The report follows up on work conducted in 2012 and informs the Legislative Assembly of the vulnerability of key operational systems to security breaches and threats and identifies significant governance issues in the development and implementation of IT systems across government.
General Report on the Performance and Financial Reporting of Ministries, Portfolios and Offices for the years ending 30 June 2013 and 2014	September 2015	The report provides an overview of the results of audits conducted of the financial statements and discusses the significant findings that have been reported to the various Ministries, Portfolios and Offices.
General Report on the	September	The report provides an overview of the results of audits

Report	Date of Issue	Summary
Performance and Financial Reporting of Statutory Authorities and Government Companies for the years ending 30 June 2013 and 2014	2015	conducted of the financial statements and discusses the significant findings that have been reported to the various Statutory Authorities and Government Companies.
General Report on the Performance and Financial Reporting of Entire Public Sector for the year ending 30 June 2014	September 2015	The report provides an overview of the result of the entire public sector financial statement audit and discusses the significant findings that have been reported to the Ministry of Finance.

### Reports in Progress as at 30 June 2016

Report	Summary	Progress
Scrap Metal	The review is examining the award of a contract to purchase scrap metal and will result in the issuance of a public interest report.	Initial clearance is completed and report is being edited for comments received. Report is expected to be issued by the end of September.
Healthcare	This wide-scope audit will examine the arrangements that Government has in place to manage the delivery of health care services in the Cayman Islands and consider whether this is done effectively with due regard for value for money, accountability and transparency. There will also be a public interest report issued describing government's responsibilities	Audit is currently in the examination stage. A report is expected to be issued by the end of October.
Governance Review of Cayman Airways, Cayman Islands Airports Authority and the Civil Aviation Authority	These audits are examining the arrangements in place to govern and manage the performance and operations of three SAGCs efficiently, effectively and economically, and in a manner which is accountable and transparent.	Reports are being drafted. Reports are expected to be issued by the end of December.

## APPENDIX 3 – OUTPUTS DELIVERED 2015/16

The outputs delivered in 2015/16 to the PAC as per the Annual Budget Statement for the OAG.

AUD 2	Investigations and Reports	
<p><b>Description</b> Audit reports and advice to Public Accounts Committee (PAC) and other Legislative Committees relating to the following:</p> <ul style="list-style-type: none"> <li>• Management of executive financial transactions</li> <li>• Financial Management of Entire Public Sector (EPS) or of any Ministry, Portfolio, Statutory Authority or Government Company</li> <li>• The economy, efficiency and effectiveness of any Ministry, Portfolio, Statutory Authority or Government Company</li> <li>• Other matters of public interest as determined by the Auditor General</li> </ul>		
<b>Measures</b>	<b>2015/16 Actual</b>	<b>2015/16 Budget</b>
<p><b>Quantity</b></p> <ul style="list-style-type: none"> <li>• Number of reports issued to the Legislative Assembly</li> <li>• Number of audits in progress / partial reports at year end</li> </ul>	6 3	6-8 1-3
<p><b>Quality</b></p> <ul style="list-style-type: none"> <li>• Issued reports are reviewed and signed off by Audit Manager and/or Auditor General</li> <li>• Request client's comments on the draft reports and amend the final report if necessary</li> <li>• Report recommendations are agreed to by PAC (actual not tracked)</li> </ul>	100% 100% 100%	100% 100% 80-100%
<p><b>Timeliness</b></p> <ul style="list-style-type: none"> <li>• All audit reports become public documents within two weeks of submission to the Speaker of the Legislative Assembly.</li> <li>• All reports are publicly available through the website within two days after becoming a public document.</li> </ul>	33% 100%	100% 100%
<p><b>Location</b> Cayman Islands: Office of the Auditor General, 3<sup>rd</sup> Floor Anderson Square, George Town, and Client premises (local &amp; international)</p>	100%	100%
<b>Cost (of producing the Output)</b>	<b>\$479,230</b>	<b>\$664,000</b>
<b>Price (paid by PAC for the output)</b>	<b>\$499,435</b>	<b>\$664,000</b>
<p><b>Related Broad Outcome:</b> 8. Culture of Good Governance</p>		



## **Contact us**

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## **Complaints**

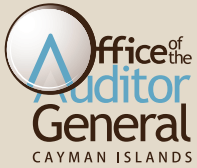
To make a complaint about one of the organisations we audit or about the OAG itself, please contact Garnet Harrison at our address, telephone or fax number or alternatively email: [garnet.harrison@oag.gov.ky](mailto:garnet.harrison@oag.gov.ky)

## **Freedom of Information**

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

## **Media enquiries**

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



September 2016