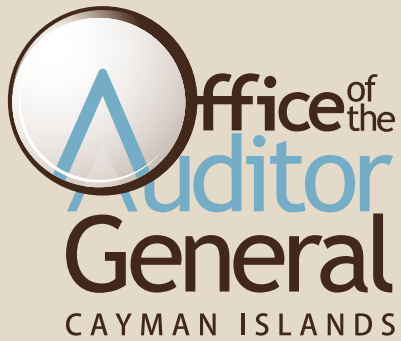




# Annual Report

30 June 2011





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

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# FOREWORD BY THE AUDITOR GENERAL

I am delighted to present the Annual Report of the Office of the Auditor General (“Office” or “OAG”) for the Cayman Islands for the year ending 30 June 2011. This annual report completes the accountability cycle that began when the Office published its 2010/11 Annual Budget Statement. Both documents help legislators and the public assess the Office’s performance. A further objective of this report is to communicate who we are and what we do, and to encourage the reader to understand our role and our desire to make a difference in the lives of the people of the Cayman Islands by ensuring public funds are managed in a transparent and accountable way.



First I must apologize for this report not being issued earlier. The audit of my Office’s financial statements was completed by PWC in line with the statutory timetable of 31 October 2011 and we again received an unqualified opinion. However, at that time, we decided that it would be a timely to try and revise our annual report to provide more information and more accountability for our work, in conjunction with developing a revised framework for managing and demonstrating the performance of the Office. This has taken longer than expected and is still a work in progress. This annual report is an initial building block upon which we plan to further develop the reporting of our performance.

This is a time of significant change and uncertainty, and the pressures on public finances present significant challenges for Government, as they seek to contain and reduce costs and find new sources of revenue. The risks that these challenges present reinforce the need for effective accountability of public expenditure and the importance of independent scrutiny of that expenditure by my Office.

The core activities of the OAG during 2010/11 were the audit of the current year financial statements, clearance of the backlog of financial audits for the various Government entities, the submission of performance audit reports to the Legislative Assembly, and continued support of the activities of Hazard Management Cayman Islands. Holding Government to account for its spending and for providing value-for-money in public services is a key focus of our work. Over the past year we have begun to change the way we manage and operate the Office. We developed new internal policies and procedures to better align our work with the current auditing standards and to make our Office more efficient and effective.

As an independent body, we believe in delivering quality products and services to the Legislative Assembly and audited bodies. As outlined in our Strategic Plan 2011 – 2013, our work is guided by four broad strategic objectives:

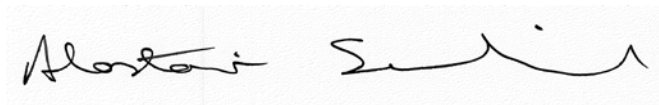
- Well managed public services
- Fostering good relationships
- Independence of the OAG
- Leading by example

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

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

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

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

A handwritten signature in black ink, appearing to read 'Alastair Swarbrick', written on a light-colored background.

Alastair Swarbrick, MA(Hons), CPFA  
Auditor General  
July 2012

# ABOUT THE OAG

## PUBLIC SECTOR AUDIT

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

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

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

Public sector audit is an important link in the chain of accountability and holding to account. It strengthens accountability, both upwards to the elected members who provide resources, and outwards to citizens and users of public services. Public sector audit adds value, not only by reviewing and reporting on what happened, but also by looking forward, identifying where improvements can be made, and promoting good practice. In this way public sector audit contributes to improved standards of governance, better management and decision making, and more effective use of public money.

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

The Office of the Auditor General is an independent and reliable source of such information. We achieve this through following three core public audit principles:

Our Vision is that: **“OUR INDEPENDENT WORK PROMOTES GOOD GOVERNANCE, TRANSPARENCY AND ACCOUNTABILITY IN THE USE OF PUBLIC FUNDS”.**

We apply the unique perspective of public sector audit to help the Legislative Assembly and government drive lasting improvement in public services.

## The Cayman Islands Constitution

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

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

The powers and duties of the Auditor General are further set out in the *Public Management and Finance Law (2010 Revision)*.

- independence from the bodies being audited;
- wider scope audit; and
- making the results of our audits and reviews available to the public and to democratically elected representatives.

## WHO WE ARE AND WHAT WE DO

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

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

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

Our work focuses on how well the civil and public service implements government policy. We examine how resources have been used, including whether they are in line with relevant legal authorities. We are politically neutral and therefore do not comment on government policy. The only time we discuss the role of politicians is when they cross the line into the implementation and administration of policy, which is the role of civil and public servant as mandated under the *Public Management and Finance Law* and the *Public Service Management Law*.

Audit is a fundamental element of accountability that supports the role of Government to effectively report on its use of the public money. We report our findings without fear or favour. Our reports are

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

The freedom to determine the content, timing and publication of reports is a fundamental principle of an independent audit office. It promotes transparency in the use of government resources and enables our objective findings to be made available without any political interference or manipulation. We strive to make our reports as timely as possible in order to support effective accountability and transparency in the use of resources by Government. Delays in reporting our findings potentially make them obsolete and more significantly erode effective accountability. Our reports are subject to a formal clearance process with the relevant officials and legal advisors to ensure their factual accuracy before they are made public. In line with international standards for public sector audit offices we fulfill our responsibilities by informing the public of the results our work through our website and the media.

The program delivery model setting out our work and the results we are trying to achieve is set out in Appendix 1

## OUR STRATEGY

The Strategic Ownership Goals we set out in our 2010/11 Budget Submission to the Legislative Assembly were:

- To develop and strengthen the Office's human resource capability in order to provide an effective and efficient audit service.
- To ensure that we meet the changing needs and expectations of our stakeholders by focusing our resources on matters offering the greatest potential to improve their performance and accountability.
- To continuously improve our own business management practices by identifying and giving priority to the most important risks.
- To enhance the independence of the Office by assisting Government in developing a framework for the mandate and operations of Office of the Auditor General's Office via an Auditor General's Act.
- To enhance public accountability through the release of relevant and timely audit reports to all stakeholders.
- To meet the deadlines and commitments of the *Public Management and Finance Law (2010 Revision)* and the *Public Service Management Law (2010 Revision)* and the *Personnel Regulations, 2006*.

During the year we commenced the development of a strategic plan for the OAG for the period 2011 to 2013. By 30 June 2011 this plan was fairly well advanced and in the final stages of completion. The plan sets out four over-arching strategic objectives, which are in line with the Strategic Ownership Goals we

set out in our 2010/11 Budget Submission to the Legislative Assembly. This plan will drive our work and provide a basis for monitoring our performance in future years.

### **Strategic Plan Objectives:**

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

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

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

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

# OUR WORK

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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 have to balance this work with the need to support Government to progress so that the programs and services that it provides to stakeholders continuously improve.

## FINANCIAL AUDIT

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

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

For the fiscal year ended 30 June 2011, we carried out financial audits of 38 individual entities and on the consolidated financial statements of Government. During this period, there was still a continuing backlog of audited Annual Reports and Accounts to be tabled in the Legislative Assembly, dating back to 2004/05. This backlog arose from deficiencies in the presentation of information for audit, which has undermined transparency and accountability and raised significant concerns about effective financial management.

During the year we worked hard with Government to clear this backlog of financial statements. In 2010/11, we issued 74 (2009/10: 24) financial statement audit opinions on individual entities.

As at 30 June 2011, for the 172 audit opinions that we have issued for the period of 2004/05 to 2009/10, 21% have been given a disclaimer of opinion or an adverse opinion and 37% of the audit opinions were qualified. Unqualified opinions were provided on 42% of the financial statements issued during this time frame. For a more detailed breakdown see our Financial and Performance Reporting reports on <http://www.auditorgeneral.gov.ky>.

With respect to the consolidated statements of the Government as at 30 June 2011, there were no audit opinions issued for the period of 2004/05 to 2009/10, and the OAG had only received a

**“...the need for financial accountability has existed ever since it became necessary for one individual to entrust the care of his possessions or business to another.”** – *Committee to review the Functioning of Financial Institutions (“Wilson Committee”) 1980*

submission for 2004/05 which was not complete.

We will continue working with the Government to reduce the percentage of modified audit opinions in the future. This will be a good indicator that financial management and reporting is improving in quality for the Government.

We inform the organisations we audit of the issues we find during our work, giving our independent view on areas where the audited entities could improve its governance, controls, financial management and reporting. We conduct our financial audit work in accordance with International Standards on Auditing, also paying regard to International Standards of Supreme Audit Institutions (ISSAIs). It is delivered by staff who are qualified members of professional accountancy bodies or in training to become so. At this time eight audits are conducted by local audit firms on behalf of the Auditor General.

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

## **PERFORMANCE AUDIT**

A fundamental part of our remit is to conduct audits on whether government carries out its business efficiently, effectively and economically. During the year we continued to deliver high quality performance and compliance audits. We issued two reports during 2010/11 (2009/10: 5 reports issued) both on the status of Financial and Performance Reporting. However, work on three other reports was substantially complete by 30 June 2011, which was subsequently issued in July and August 2011 following completion of the clearance process. The reports in progress were:

- Government's Management of Procurement
- Government's Management of Procurement – The Case Studies
- Financial & Performance Reporting: Update as at 31 July 2011.

In determining the performance audit work that the OAG carries out we carry out a robust risk assessment to identify relevant topics. To support this we consider it important to include the views of stakeholders on what areas are important and would have the most impact. Therefore during the year we commenced a consultation process about our future programme of performance audits.

The performance audit reports issued during the year were:

**Financial and Performance Reporting: General Report of the Auditor General issued in December 2010.**

The purpose of the report was to help the Members of the Legislative Assembly in their role of ensuring financial accountability and transparency for government operations.

The Report indicated some progress has been made in restoring financial accountability; however, the Government still has a significant way to go before it is fully restored. However this progress cannot hide that the usefulness of the financial statements for earlier years for most entities, but in particular for the ministries and portfolios, is very limited due to their lateness and the unreliability of the information they contain. There are still significant challenges in restoring overall financial accountability, mainly (but not solely), in relation to the ministries and portfolios and the consolidated Government position. The reliability and quality of the statutory authority and government company's financial statements is reasonable, apart from a few exceptions, with visible progress being made to restore their financial accountability.

**Financial & Performance Reporting: Update as at 31 March 2011 issued in April 2011**

The Auditor General met with the Public Accounts Committee (PAC) to discuss the issues raised in the December 2010 report, and the work the Office was doing to assist the Government to clear the backlog of financial statements. It was agreed that the Auditor General would provide the Legislative Assembly with an update as at March 31, 2011. Therefore, this report provided an update to the Legislative Assembly on the progress made in the presentation of financial statements across the public sector since the Auditor General issued his *General Report on Financial and Performance Reporting* in December 2010. This update covered the six years since the implementation of the PMFL from 2004/05 to 2009/10.

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

Critical to our success is the service and support we offer the Public Accounts Committee and Legislative Assembly more broadly so that the outcomes which are jointly achieved from this unique relationship are enhanced (see Appendix 1).

During 2010/11 the PAC met two times with the Office in attendance. In March of 2011 the Chairman of PAC resigned as a result of difficulties in getting a quorum of the members to attend. A new chairman was not appointed by the end of the fiscal year, 30 June 2011.

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

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

Our Office continues to work and support Hazard Management Cayman Islands by participating on the National Hurricane Committee and keeping up our training in the event of a disaster.

## **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 2010/11 the Auditor General and the OAG team met and consulted with a large number of stakeholders. Specific activities undertaken included:

- Meetings with the Chief Financial Officers (CFOs) from across government outlining the OAG's approach and expectations, and to listen to their concerns
- The Auditor General had individual meetings with chief officers and senior staff regarding the key issues and risks facing government and to inform the development of future audit work
- Development of a draft strategic plan for the OAG based on a consultative process with key stakeholders
- Began the re-development of our website
- Establishment of strong work relationships with key partners including: Commission for Standards in Public Life; Office of the Complaints Commissioner; Information Commissioner's Office; and private sector audit firms.

## OUR PEOPLE

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

### Senior Management Team



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

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



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

Responsible for managing the financial audits delivered by our in-house audit team



**Martin Ruben,  
Audit Principal,  
CGA**

Responsible for managing the performance audits and communications

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

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

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

The success of our staff is very important to the OAG and we were delighted that our Finance and Administration Manager, Kim Lutz (third from the right), was recognized for her outstanding customer service when she received the Governor's FACE award.



# OUR ORGANISATION

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## LEADING BY EXAMPLE

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

During the year we began reviewing our arrangements, policies and processes with the overall aim of ensuring they meet and exceed the standards we would expect of others in performance of their duties. The specific work undertaken during the fiscal year was as follows:

- Began the development of a three year strategic plan to drive the work of the OAG against which we intend to monitor our performance
- Developed a renewed vision statement supported by our three core values
- Began consulting on our future performance audit programme
- Introduced a new Code of Conduct incorporating our professional code of ethics and the Public Servants Code of Conduct
- Further developed our internal policies during the year, particularly around conduct, ethics and independence, to reflect recent developments in our professional requirements and the standards expected of those in public life
- We updated our internal policies for managing complaints about the Office and concerns about the entities we audit
- Began the re-development of our website
- Put in place a register of interests for all OAG staff
- Began reviewing how we are organized and structured to ensure that we are efficient and effective in the delivery of our work
- Submission and audit of our financial statements for the year ending 30 June 2010 in line statutory timetable, with the accounts receiving an unqualified audit opinion.

### OAG Three Core Values

**Independence** – We work independently from Government

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

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

Looking forward, apart from the finalization and publication of our strategic plan and three year performance audit plan, we will strive to continually improve the arrangements within the OAG, building on the work commenced in 2010/11. This will include: the ongoing development of our internal policies and procedures; the launch of our redeveloped website; the development of a risk management framework for OAG; and the development of a performance management framework in support of our strategic plan against which the OAG's performance can be measured.

## **INDEPENDENCE OF THE OAG**

During the year we began work to move the agenda forward on our independence which included engaging key stakeholders, rebranding the OAG with a clearly separate identity from Government and the development of our policies and procedures around conduct, ethic and independence to reinforce our independence. Looking forward we will continue to:

- Work with the PAC and Government to develop a framework for the mandate and operations of Office of the Auditor General's via a separate Auditor General's Law.
- Communicate and educate stakeholders on the role, functions and independence of the OAG through various mechanisms, including presentations, publications and our website.
- Work with Government to resolve financial and operational constraints that could affect our independence.

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

We are required to carry out our work in compliance with International Standards on Auditing (ISAs) which are continually being modified and have recently been subject to significant development and clarification. As a public sector audit office we also pay regard to the International Standards of Supreme Audit Institutions (ISSAIs) which expand on the ISAs for application in the audit of government entities. Auditing practices, techniques, methodologies and supporting tools also continue to develop. Accounting standards against which we carry out our financial audit work have also seen significant changes recently and continue to develop and evolve. Over the past fiscal year we:

- Continued to develop our financial and performance audit practices to ensure that they are risk based and focused on the areas that matter, including upgrading the IT tools (Caseware Audit) in the delivery of our work.
- Developed a Learning and Development policies and plan to ensure compliance with professional requirements, organizational effectiveness, and that staff are provided with appropriate skills and tools, and to help support effective succession planning.
- Developed a quality assurance framework that sets out our overall approach to providing assurance that we meet professional standards and achieve our business objectives.

## DEVELOPING THE CAPACITY OF THE OAG

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

During the year, we looked at developing the capacity from two perspectives. Firstly, we looked to develop the skills of our staff to ensure that they maintain and enhance their skills, and also so the OAG meets its professional obligations around staff development. Secondly we have begun examining the overall capacity needs of the OAG to enable the effective delivery of our mandate, and how they will be achieved. Key activities that have happened include:

- Performance management meetings with staff to identify key development needs
- Development of a Staff Learning and Development Policy and Plan
- All staff attended professional update training on auditing and accounting standards. OAG drove the development of this training which was opened up to all Government financial staff.
- Analysis of OAG overall resource requirements to effectively deliver our mandate and meet our professional requirements.

This work will continue over the coming years, but in these difficult economic times the challenges of ensuring the OAG has the appropriate capacity cannot be underestimated.

## OUR FINANCES

The full audited accounts of the OAG are included at Appendix 2. The details outputs delivered are at Appendix 3

### FINANCIAL SUMMARY

|                                             | 2010/11<br>Actual | 2010/11<br>Original /<br>Final<br>Budget | Actual<br>Variance<br>From<br>Original<br>Budget<br>\$000 | Actual<br>Variance<br>From<br>Original<br>Budget<br>% |
|---------------------------------------------|-------------------|------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------|
|                                             | \$000             | \$000                                    | \$000                                                     | %                                                     |
| <b>Revenue</b>                              |                   |                                          |                                                           |                                                       |
| Audit services to Public Accounts Committee | 533               | 560                                      | (27)                                                      | (4.8%)                                                |
| Audit services to other government agencies | 2,153             | 1,551                                    | 602                                                       | 38.8%                                                 |
| <b>Total Operating Revenue</b>              | <b>2,686</b>      | <b>2,111</b>                             | <b>575</b>                                                | <b>27.2%</b>                                          |
| <b>Expenses</b>                             |                   |                                          |                                                           |                                                       |
| Personnel costs                             | 1,662             | 1,669                                    | (7)                                                       | (0.4%)                                                |
| Operating expenses                          | 312               | 421                                      | (109)                                                     | (25.9%)                                               |
| Depreciation                                | 18                | 21                                       | (3)                                                       | (14.3%)                                               |
| <b>Total Expenses</b>                       | <b>1,992</b>      | <b>2,111</b>                             | <b>(119)</b>                                              | <b>(5.6%)</b>                                         |

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

During 2010/11, we had lower revenues from budget for audit services to PAC (Output AUD-02) as a result of our focus on clearing the backlog of audited financial statements for government as shown above. Our resources were shifted over to audit services to other government agencies, which was significantly over budget as more financial statement audits were completed than we anticipated in the budget.

We reduced our overall expenditures by 5.6% from the budgeted amount as shown above. The majority of our savings was under operating expenses in regards to: professional fees as we did not hire consultants to clear the back log of audits as we had planned and shifted our resources from value-for-money audits to financial statement audits; our own audit fees were \$12k less than budgeted as a result of a change in the *Public Management and Finance Law* that no longer requires the audit of the Statement of Outputs Delivered; and our training expenses were \$18k under budget due to only one of

the two Caymanian employees taking their CPA studies this year, and the costs of the annual accounting and auditing update courses were borne by the Civil Service College.

## SENIOR MANAGEMENT REMUNERATION

The remuneration and benefits of the OAG senior management during 2010/11 are disclosed in bands of CI\$5,000 in line with the recommendations of the Information Commissioners Office.

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

Remuneration includes salary, allowances and any additional remuneration paid during the financial year. Allowances paid during the year were settlement allowance, motor car upkeep allowance and acting allowance. The Deputy Auditor General and the Audit Principals received additional remuneration in May 2011 for a payout of unused annual leave. Benefits include pension and health care insurance payments during the financial year.

## FINANCIAL PERFORMANCE RATIOS

| Ratio                                                 | 2010/11<br>Actual | 2010/11<br>Original /<br>Final Budget | Annual<br>Variance |
|-------------------------------------------------------|-------------------|---------------------------------------|--------------------|
|                                                       | %                 | %                                     | %                  |
| Current Assets: Current Liabilities (Working Capital) | 126%              | 161%                                  | (35%)              |
| Total Assets: Total Liabilities                       | 130%              | 179%                                  | (49%)              |

These ratios indicate that we should be able to meet all of our current obligations as of 30 June 2011, even though there was a negative variance of 35% and 49%. We were anticipating a better working capital position at year end than what was actually achieved by year end.

## PHYSICAL CAPITAL MEASURES

| Measure                                            | 2010/11<br>Actual | 2010/11<br>Original/Final<br>Budget | Annual<br>Variance |
|----------------------------------------------------|-------------------|-------------------------------------|--------------------|
| Value of total assets                              | \$1,188,000       | \$466,000                           | \$78,000           |
| Asset replacements: total assets                   | 0.7%              | 2.8%                                | (2.1%)             |
| Book value of assets: initial cost of those assets | 34.8%             | 33.1%                               | 1.7%               |
| Depreciation: cash flow on asset purchases         | 225%              | 162%                                | 63%                |
| Changes to asset management policies               |                   | None                                |                    |

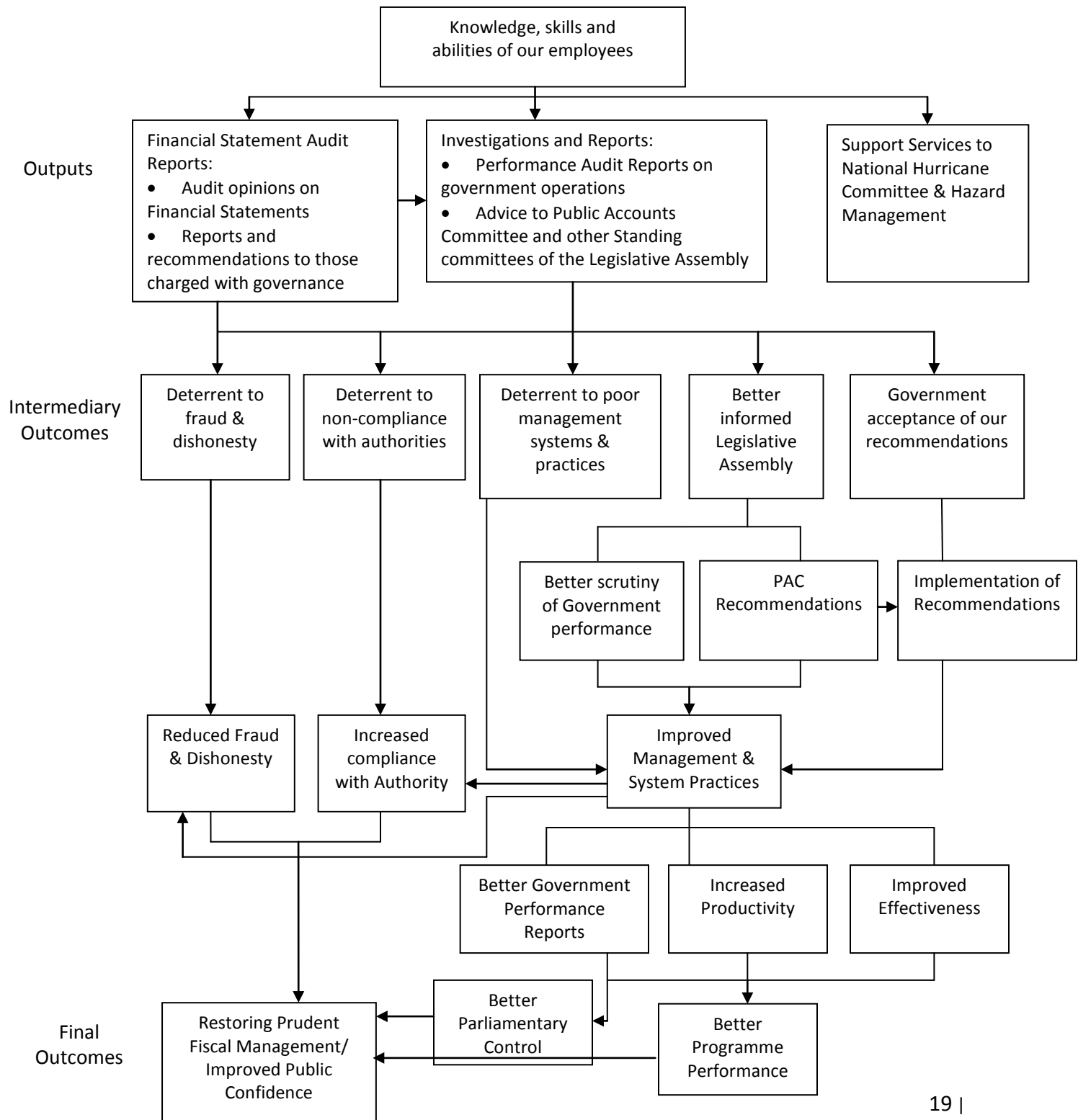
Total assets were more than budget due to the significant increase in cash position (\$347,000) and significant increase in our accounts receivables (\$396,000) from budget. This is a result of the significant surplus (\$694,000) that we experienced during the fiscal year a result of clearing the backlog of financial statements. Therefore our asset replacements to total assets was 2.1% less than what was budgeted for. The depreciation to cash flows on asset purchases was 63% less than budget since we did not actually spend as much as we had budget for.

## HUMAN CAPITAL MEASURES

| Measure                                                                | 2010/11<br>Actual                         | 2010/11<br>Original /<br>Final Budget | Annual<br>Variance |
|------------------------------------------------------------------------|-------------------------------------------|---------------------------------------|--------------------|
| <b>Total full time equivalent staff employed at 30 June</b>            | 19                                        | 20                                    | (1)                |
| <b>Staff turnover (%)</b>                                              |                                           |                                       |                    |
| Managers                                                               | 0%                                        | 0%                                    | 0%                 |
| Professional and technical staff                                       | 8%                                        | 25%                                   | (17%)              |
| Clerical and labourer staff                                            | 33%                                       | 0%                                    | 33%                |
| <b>Average length of service</b> (number of years in current position) |                                           |                                       |                    |
| Managers                                                               | 6                                         | 7.5                                   | (1.5)              |
| Professional and technical staff                                       | 3                                         | 3                                     | 0                  |
| Clerical and labourer staff                                            | 3                                         | 8.5                                   | (5.5)              |
| <b>Changes to personnel management system:</b>                         | No changes to personnel management system |                                       |                    |

In July 2010, the Auditor General, Alastair Swarbrick began a three-year contract. We did not anticipate any turnover at the managerial level and had no turnover during the year. At the Audit Project Leader (professional and technical staff) position, we had one employee resign during the year which resulted in a variance of (17%) as we anticipated three resignations. Under the clerical and labourer staff we had one employee resign, which resulted in a variance of 33%, as we did not anticipate anyone to resign at that level during the year. At year end, there was one auditor position that was not filled.

## APPENDIX 1- PROGRAM DELIVERY MODEL





## APPENDIX 2

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# Financial Statements

**30 June 2011**

# Office of the Auditor General of the Cayman Islands

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## ***Office of the Auditor General of the 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 (2010 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 (2010 Revision)*.

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

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

The financial statements fairly present the financial position, financial performance and cash flows of the Office of the Auditor General for the financial year ended 30 June 2011.

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 2011;
- (b) fairly reflect the financial position as at 30 June 2011 and the performance for the year ended 30 June 2011;
- (c) comply with International Public Sector Accounting Standards as set out by International Public Sector Accounting Standards Board under the responsibility of the International Federation of Accountants.

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



Alastair Swarbrick, MA (Hons), CPFA  
Auditor General

DATE: 25 October 2011



Garnet Harrison, CA  
Deputy Auditor General

DATE: 25 October 2011



## **INDEPENDENT AUDITORS' REPORT**

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

#### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Office of the Auditor General (the "Audit Office"), which comprise the statement of financial position as at 30 June 2011 and the statement of financial performance, statement of changes in net assets/equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as presented on pages A1 to A21 of the Annual Report.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Audit Office as at 30 June 2011, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

A stylized, handwritten signature of "PricewaterhouseCoopers" in black ink.

25 October 2011

**OFFICE OF THE AUDITOR GENERAL**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2011**  
(Expressed in Cayman Islands Dollars)

| 2009/10<br>Actual<br>\$000 |                                        | Note | 2010/11<br>Actual<br>\$000 | 2010/11<br>Final/Original<br>Budget<br>\$000 | 2010/11<br>Variance from<br>Original Budget<br>\$000 |
|----------------------------|----------------------------------------|------|----------------------------|----------------------------------------------|------------------------------------------------------|
| <b>Current Assets</b>      |                                        |      |                            |                                              |                                                      |
| 102                        | Cash and cash equivalents              | 1    | 426                        | 79                                           | 347                                                  |
| 386                        | Accounts receivable & work in progress | 2    | 718                        | 322                                          | 396                                                  |
| 3                          | Prepayments                            |      | 3                          | 17                                           | (14)                                                 |
| 491                        | <b>Total Current Assets</b>            |      | 1,147                      | 418                                          | 729                                                  |
| <b>Non-Current Assets</b>  |                                        |      |                            |                                              |                                                      |
| 53                         | Property, plant and equipment          | 3    | 41                         | 48                                           | (7)                                                  |
| 53                         | <b>Total Non-Current Assets</b>        |      | 41                         | 48                                           | (7)                                                  |
| 544                        | <b>Total Assets</b>                    |      | 1,188                      | 466                                          | 722                                                  |
| <b>Current Liabilities</b> |                                        |      |                            |                                              |                                                      |
| 82                         | Accounts payable                       | 4    | 38                         | 49                                           | (11)                                                 |
| 91                         | Employee entitlements                  | 5    | 85                         | 115                                          | (30)                                                 |
| 96                         | Surplus payable                        | 6    | 790                        | 96                                           | 694                                                  |
| 269                        | <b>Total Current Liabilities</b>       |      | 913                        | 260                                          | 653                                                  |
| 269                        | <b>Total Liabilities</b>               |      | 913                        | 260                                          | 653                                                  |
| 275                        | <b>Net Assets</b>                      |      | 275                        | 206                                          | 69                                                   |
| <b>Net Assets/Equity</b>   |                                        |      |                            |                                              |                                                      |
| 581                        | Contributed capital*                   | 7    | (113)                      | 400                                          | (513)                                                |
| (306)                      | Accumulated surpluses/(deficits)       |      | 388                        | (194)                                        | 582                                                  |
| 275                        | <b>Total Net Assets/Equity</b>         |      | 275                        | 206                                          | 69                                                   |

\* See Statement of Changes in Net Assets/Equity on page A7

The accounting policies and notes on pages A9 to A21 form part of these financial statements.

**OFFICE OF THE AUDITOR GENERAL**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR 30 JUNE 2011**  
(Expressed in Cayman Islands Dollars)

| 2009/10<br>Actual<br>\$000 |                                                      | Note | 2010/11<br>Actual<br>\$000 | 2010/11<br>Final/Original<br>Budget<br>\$000 | 2010/11<br>Variance from<br>Original Budget<br>\$000 |
|----------------------------|------------------------------------------------------|------|----------------------------|----------------------------------------------|------------------------------------------------------|
| <b>Revenue</b>             |                                                      |      |                            |                                              |                                                      |
| 574                        | Audit services provided to Public Accounts Committee | 8    | 533                        | 560                                          | (27)                                                 |
| 1,491                      | Audit services provided to other government agencies | 8    | 2,153                      | 1,551                                        | 602                                                  |
| <b>2,065</b>               | <b>Total Revenue</b>                                 |      | <b>2,686</b>               | <b>2,111</b>                                 | <b>575</b>                                           |
| <b>Expenses</b>            |                                                      |      |                            |                                              |                                                      |
| 1,723                      | Personnel costs                                      | 9    | 1,662                      | 1,669                                        | (7)                                                  |
| 436                        | Operating expenses                                   | 10   | 312                        | 421                                          | (109)                                                |
| 18                         | Depreciation                                         | 3    | 18                         | 21                                           | (3)                                                  |
| <b>2,177</b>               | <b>Total Expenses</b>                                |      | <b>1,992</b>               | <b>2,111</b>                                 | <b>(119)</b>                                         |
| <b>(112)</b>               | <b>Net Surplus/(Deficit) for the period</b>          |      | <b>694</b>                 | <b>-</b>                                     | <b>694</b>                                           |

The accounting policies and notes on pages A9 to A21 form part of these financial statements.

**OFFICE OF THE AUDITOR GENERAL**  
**STATEMENT OF CHANGES IN NET ASSETS/EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2011**  
(Expressed in Cayman Islands Dollars)

| <i>2009/10<br/>Actual<br/>\$000</i> |                                               | <i>Note</i> | <i>2010/11<br/>Contributed<br/>Capital<br/>(Note 7)*<br/>\$000</i> | <i>2010/11<br/>Accumulated<br/>Surpluses /<br/>(Deficits)<br/>\$000</i> | <i>2010/11<br/>Total Net<br/>Assets /<br/>Equity<br/>\$000</i> | <i>2010/11<br/>Total Net<br/>Assets/Equity<br/>Final/Original<br/>Budget<br/>\$000</i> | <i>2010/11<br/>Total Net<br/>Assets/Equity<br/>Variance From<br/>Original Budget<br/>\$000</i> |
|-------------------------------------|-----------------------------------------------|-------------|--------------------------------------------------------------------|-------------------------------------------------------------------------|----------------------------------------------------------------|----------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| 206                                 | <b>Opening<br/>Balance</b>                    |             | 581                                                                | (306)                                                                   | 275                                                            | 206                                                                                    | 69                                                                                             |
| (112)                               | Net Surplus /<br>(deficit) for the<br>period  |             | -                                                                  | 694                                                                     | 694                                                            | -                                                                                      | 694                                                                                            |
| -                                   | <i>Repayable of<br/>Net Surplus</i>           | <b>6, 7</b> | (694)                                                              | -                                                                       | (694)                                                          | -                                                                                      | (694)                                                                                          |
| 181                                 | <i>Contributed<br/>goods and<br/>services</i> | <b>7</b>    | -                                                                  | -                                                                       | -                                                              | -                                                                                      | -                                                                                              |
| <b>275</b>                          | <b>Closing<br/>balance</b>                    |             | <b>(113)</b>                                                       | <b>388</b>                                                              | <b>275</b>                                                     | <b>206</b>                                                                             | <b>69</b>                                                                                      |

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

The accounting policies and notes on pages A9 to A21 form part of these financial statements.

**OFFICE OF THE AUDITOR GENERAL**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2011**  
(Expressed in Cayman Islands Dollars)

| 2009/10<br>Actual<br>\$000                  |                                                                       | Note      | 2010/11<br>Actual<br>\$000 | 2010/11<br>Final/Original<br>Budget<br>\$000 | 2010/11<br>Variance from<br>Original Budget<br>\$000 |
|---------------------------------------------|-----------------------------------------------------------------------|-----------|----------------------------|----------------------------------------------|------------------------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b> |                                                                       |           |                            |                                              |                                                      |
| Receipts:                                   |                                                                       |           |                            |                                              |                                                      |
| 610                                         | Audit services provided to Public Accounts Committee                  |           | 209                        | 565                                          | (356)                                                |
| 1,387                                       | Audit service provided to other government agencies                   |           | 2,147                      | 1,561                                        | 586                                                  |
| Payments:                                   |                                                                       |           |                            |                                              |                                                      |
| (1,729)                                     | Personnel costs                                                       |           | (1,670)                    | (1,661)                                      | (9)                                                  |
| (226)                                       | Operating expenses                                                    |           | (354)                      | (443)                                        | 89                                                   |
| (4)                                         | Capital charge                                                        |           | -                          | -                                            |                                                      |
| <b>38</b>                                   | <b>Net cash flows generated from / (used in) operating activities</b> | <b>13</b> | <b>332</b>                 | <b>22</b>                                    | <b>310</b>                                           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b> |                                                                       |           |                            |                                              |                                                      |
| (6)                                         | Purchase of non-current assets                                        |           | (8)                        | (13)                                         | 5                                                    |
| <b>(6)</b>                                  | <b>Net cash flows (used in) investing activities</b>                  |           | <b>(8)</b>                 | <b>(13)</b>                                  | <b>5</b>                                             |
| 32                                          | <b>Net increase/(decrease) in cash and cash equivalents</b>           |           | 324                        | 9                                            | 315                                                  |
| 70                                          | Cash and cash equivalents at beginning of year                        |           | 102                        | 70                                           | 32                                                   |
| <b>102</b>                                  | <b>Cash and cash equivalents at end of year</b>                       | <b>1</b>  | <b>426</b>                 | <b>79</b>                                    | <b>347</b>                                           |

The accounting policies and notes on pages A9 to A21 form part of these financial statements.

**OFFICE OF THE AUDITOR GENERAL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**Background Information**

The Office of the Auditor General (the "Office") was originally established under the Cayman Islands (Constitution) (Order) 1993 under Section 55B and was re-established under the new Cayman Islands Constitution Order 2009 Section 114 as an independent public office. Its mandate and responsibilities are prescribed in sections 58 to 69 of the *Public Management and Finance Law (2010 Revision)* ("PMFL"). The main source of revenue is from audit services provided to the Cayman Islands Government ("the Government"). The Office is dependent on this source of income to continue in operation for the foreseeable future. Some of the audit services are undertaken by private sector auditors appointed by the Auditor General.

The Office of the Auditor General is located on the Third Floor, Anderson Square, Shedden Road, George Town, Grand Cayman. As at 30 June 2011, the Office had 19 employees (2009: 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 2011.

***Budget Amounts***

The 2010/11 original budget amounts were prepared using the accrual basis of accounting and the accounting policies have been consistently applied with the actual financial statement presentation. The 2010/11 original budget was presented in the 2010/11 Annual Budget Statement of the Government of the Cayman Islands and approved by the Legislative Assembly on 24 June 2010. The original budget represents the final budget as there were no supplemental budgets submitted for approval by the Legislative Assembly in 2010/11.

***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 2011, no reliable fair value estimate of contributed goods and services provided by Government entities could be made and therefore no estimated amounts are recorded in these financial statements. For the year ending 30 June 2010, a fair value estimate was made for contributed goods and services provided by Government entities (see Notes 7, 10 and 14).

**OFFICE OF THE AUDITOR GENERAL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**Specific Accounting Policies**

**Assets**

*Cash and cash equivalents*

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

*Accounts Receivable*

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

*Work in Progress*

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

*Property, Plant and Equipment*

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

|                        |                                    |
|------------------------|------------------------------------|
| Furniture and fittings | 6.66% (15 years) to 20% (5 years)  |
| Computer Equipment     | 33.33% (3 years)                   |
| Office Equipment       | 10% (10 years) to 33.33% (3 years) |
| Leasehold Improvements | Over the term of the lease         |

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

**Liabilities**

*Accounts Payable*

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

*Employee Benefits*

a) *Annual Leave entitlement*

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

b) *Pension Obligations*

Pension contributions for employees of the Office are paid to the Public Service Pensions Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board and is operated as a multi-employer non-contributory Fund, whereby the employer pays both employer and employee contributions. Pension contributions are included in personnel costs in the statement of financial performance. In 2010/11 all employees of the Office belonged to the defined contribution scheme. In the prior year, one employee belonged to the defined benefit plan who was retired on medical grounds. The Public Service Pension Liability for the defined benefit plan is an executive liability managed by the Minister of Finance and accordingly is not recognized in these financial statements.

**OFFICE OF THE AUDITOR GENERAL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**Specific Accounting Policies (continued)**

*Surplus Payable*

Pursuant to the *Public Management & Finance Law (2010 Revision)* section 39 (3)(f) the Office may "retain such part of its net operating surplus as is determined by the Minister of Finance". When surpluses arise these are booked as a payable to the Cayman Islands Government, unless the Minister of Finance 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 less any surpluses repayable.

***Revenue***

*Audit services revenue*

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

***Expenses***

*General*

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

*Depreciation*

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

*Operating Leases*

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

***Foreign Exchange***

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

**OFFICE OF THE AUDITOR GENERAL  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**  
(Expressed 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>2009/10<br/>Actual<br/>\$000</b> |                                        | <b>2010/11<br/>Actual<br/>\$000</b> | <b>2010/11<br/>Final/Original<br/>Budget<br/>\$000</b> | <b>2010/11<br/>Actual vs.<br/>Original Budget<br/>\$000</b> |
|-------------------------------------|----------------------------------------|-------------------------------------|--------------------------------------------------------|-------------------------------------------------------------|
| 102                                 | Bank accounts                          | 426                                 | 79                                                     | 347                                                         |
| <b>102</b>                          | <b>Total Cash and Cash Equivalents</b> | <b>426</b>                          | <b>79</b>                                              | <b>347</b>                                                  |

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

Cash and cash equivalents increased over budget by \$347k and prior year actual by \$324k due to the Office having a significant surplus (\$694k) for the year and positive cash flows from its operating activities as indicated in the Cash Flow Statement. See also note 13 for reconciliation of operating surplus to cash flows from operating activities.

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

| <b>2009/10<br/>Actual<br/>\$000</b> |                                                                   | <b>2010/11<br/>Actual<br/>\$000</b> | <b>2010/11<br/>Final/Original<br/>Budget<br/>\$000</b> | <b>2010/11<br/>Actual vs.<br/>Original Budget<br/>\$000</b> |
|-------------------------------------|-------------------------------------------------------------------|-------------------------------------|--------------------------------------------------------|-------------------------------------------------------------|
| -                                   | Audit services to PAC (accounts receivable)                       | 309                                 | -                                                      | 309                                                         |
| 23                                  | Audit services to PAC (work in progress)                          | 38                                  | 52                                                     | (14)                                                        |
| 177                                 | Audit services to other government entities (accounts receivable) | 208                                 | 115                                                    | 93                                                          |
| 186                                 | Audit services to other government entities (work in progress)    | 163                                 | 155                                                    | 8                                                           |
| 386                                 | <b>Total gross accounts receivable &amp; work in progress</b>     | 718                                 | 322                                                    | 396                                                         |
| -                                   | Less: provision for doubtful debts                                | -                                   | -                                                      |                                                             |
| <b>386</b>                          | <b>Total Net accounts receivable &amp; work in progress</b>       | <b>718</b>                          | <b>322</b>                                             | <b>396</b>                                                  |

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

Accounts Receivable for audit services provided to PAC

The Office did not expect PAC to have any outstanding balances at year end as they normally pay within a month of the bill being issued and therefore the actual was \$309k greater than budget. During the latter half of 2010/11, the PAC ceased meeting for the purpose of reviewing the Office's accounts. Subsequent to year end, the PAC was reconstituted in August 2011 and this balance of \$309k was paid to the Office soon after. For the year ending 30 June 2010 there was no accounts receivable from PAC.

Accounts Receivable for audit services provided to other government entities

The Office did not expect to have as large a balance owing from other government entities as compared to budget, where it was greater by \$93k. The increase over budget was due to the Office's focus of clearing the back log of financial statements and therefore, greater amounts were owed by some entities who were managing their cash flows. The 30 June 2011 balance was \$31k more than the 30 June 2010 balance for the same reason as noted above.

**OFFICE OF THE AUDITOR GENERAL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**  
(Expressed in Cayman Islands Dollars)

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

|                                        | <b>Furniture<br/>&amp;<br/>Fittings<br/>\$000</b> | <b>Office<br/>Equipment<br/>\$000</b> | <b>Computer<br/>Equipment<br/>\$000</b> | <b>Leasehold<br/>Improvements<br/>\$000</b> | <b>Total<br/>\$000</b> | <b>Final/Original<br/>Budget<br/>\$000</b> | <b>Actual vs.<br/>Original Budget<br/>\$000</b> |
|----------------------------------------|---------------------------------------------------|---------------------------------------|-----------------------------------------|---------------------------------------------|------------------------|--------------------------------------------|-------------------------------------------------|
| <u>Cost</u>                            |                                                   |                                       |                                         |                                             |                        |                                            |                                                 |
| At July 1, 2009                        | 60                                                | 28                                    | 44                                      | -                                           | 132                    | 132                                        | -                                               |
| Additions                              | -                                                 | -                                     | 6                                       | -                                           | 6                      | 13                                         | (7)                                             |
| Disposals                              | -                                                 | -                                     | (15)                                    | -                                           | (15)                   | -                                          | (15)                                            |
| At June 30, 2010                       | 60                                                | 28                                    | 35                                      | -                                           | 123                    | 145                                        | (22)                                            |
| <u>Accumulated<br/>Depreciation</u>    |                                                   |                                       |                                         |                                             |                        |                                            |                                                 |
| At July 1, 2009                        | 29                                                | 7                                     | 31                                      | -                                           | 67                     | 67                                         | -                                               |
| Accumulated depreciation on disposals  | -                                                 | -                                     | (15)                                    | -                                           | (15)                   | -                                          | (15)                                            |
| Depreciation charge for the year       | 5                                                 | 6                                     | 7                                       | -                                           | 18                     | 20                                         | (2)                                             |
| At June 30, 2010                       | 34                                                | 13                                    | 23                                      | -                                           | 70                     | 87                                         | (17)                                            |
| <b>Net Book Value at June 30, 2010</b> | <b>26</b>                                         | <b>15</b>                             | <b>12</b>                               | <b>-</b>                                    | <b>53</b>              | <b>58</b>                                  | <b>(5)</b>                                      |
| <u>Cost</u>                            |                                                   |                                       |                                         |                                             |                        |                                            |                                                 |
| At July 1, 2010                        | 60                                                | 28                                    | 35                                      | -                                           | 123                    | 132                                        | (9)                                             |
| Additions                              | -                                                 | -                                     | 4                                       | 4                                           | 8                      | 13                                         | (5)                                             |
| Disposals                              | (5)                                               | -                                     | (8)                                     | -                                           | (13)                   | -                                          | (13)                                            |
| At June 30, 2011                       | 55                                                | 28                                    | 31                                      | 4                                           | 118                    | 145                                        | (27)                                            |
| <u>Accumulated<br/>Depreciation</u>    |                                                   |                                       |                                         |                                             |                        |                                            |                                                 |
| At July 1, 2010                        | 34                                                | 13                                    | 23                                      | -                                           | 70                     | 76                                         | (6)                                             |
| Accumulated depreciation on disposals  | (3)                                               | -                                     | (8)                                     | -                                           | (11)                   | -                                          | (11)                                            |
| Depreciation charge for the year       | 5                                                 | 5                                     | 8                                       | -                                           | 18                     | 21                                         | (3)                                             |
| At June 30, 2011                       | 36                                                | 18                                    | 23                                      | -                                           | 77                     | 97                                         | (20)                                            |
| <b>Net Book Value at June 30, 2011</b> | <b>19</b>                                         | <b>10</b>                             | <b>8</b>                                | <b>4</b>                                    | <b>41</b>              | <b>48</b>                                  | <b>(7)</b>                                      |

Explanation of major variances against the original budget:

The purchase of computer equipment was less than budget as the Office did not purchase as many computers as intended and the price of the laptops purchased was less than budgeted. Some improvements were made to the Office including \$4k in leasehold improvements that was not in the budget. The overall additions to property, plant and equipment were \$5k less than budgeted. In addition, the Office did not budget for the disposal of furniture & fittings and computer equipment, which resulted in an \$11k difference.

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**NOTE 4: ACCOUNTS PAYABLE & ACCRUALS**

| <b>2009/10<br/>Actual<br/>\$000</b> |                 | <b>2010/11<br/>Actual<br/>\$000</b> | <b>2010/11<br/>Final/Original<br/>Budget<br/>\$000</b> | <b>2010/11<br/>Actual vs.<br/>Original Budget<br/>\$000</b> |
|-------------------------------------|-----------------|-------------------------------------|--------------------------------------------------------|-------------------------------------------------------------|
| 48                                  | Trade Creditors | 22                                  | 13                                                     | 9                                                           |
| 34                                  | Accruals        | 16                                  | 36                                                     | (20)                                                        |
| <b>82</b>                           | <b>Total</b>    | <b>38</b>                           | <b>49</b>                                              | <b>(11)</b>                                                 |

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

Trade Creditors

The Office budgeted to have trade creditors' payable of \$13k versus the actual amount of \$22k, which resulted in a variance of \$9k over budget due to unexpected costs that were incurred near year end. When comparing the decrease in Office trade creditors over the prior year, the decrease was primarily due to: unexpected amounts owing at 30 June 2010 for a severance payment payable (\$15k) for a staff member who retired on medical grounds near year end; the recruitment of the new Auditor General (\$12k).

Accruals

The Office budgeted to have accruals of \$36k versus the actual amount of \$16k, which resulted in a variance of \$20k under budget due to the decrease in audit fees as a result of not auditing the statements of outputs delivered. When comparing the decrease in accruals from the previous year of \$18k this was due to the same reason.

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

| <b>2009/10<br/>Actual<br/>\$000</b> | <b>Current Employee Entitlements<br/>Are represented by:</b> | <b>2010/11<br/>Actual<br/>\$000</b> | <b>2010/11<br/>Final/Original<br/>Budget<br/>\$000</b> | <b>2010/11<br/>Actual vs.<br/>Original Budget<br/>\$000</b> |
|-------------------------------------|--------------------------------------------------------------|-------------------------------------|--------------------------------------------------------|-------------------------------------------------------------|
| 76                                  | Annual Leave                                                 | 55                                  | 85                                                     | (30)                                                        |
| 15                                  | Time off in Lieu                                             | 30                                  | 30                                                     | -                                                           |
| <b>91</b>                           | <b>Total Employee Entitlements</b>                           | <b>85</b>                           | <b>115</b>                                             | <b>(30)</b>                                                 |

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

Actual Annual Leave was \$30k less than budget and \$21k less than last year's actual due to the payout of vacation leave to several employees during the year. Time off in Lieu was in line with budget, but increased by \$15k over last year's actual mainly due to employees working extra hours to clear the backlog of financial statement audits who could not take the time off before year end.

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**NOTE 6: SURPLUS PAYABLE**

| <b>2009/10<br/>Actual<br/>\$000</b> |                 | <b>2010/11<br/>Actual<br/>\$000</b> | <b>2010/11<br/>Final/Original<br/>Budget<br/>\$000</b> | <b>2010/11<br/>Actual vs.<br/>Original Budget<br/>\$000</b> |
|-------------------------------------|-----------------|-------------------------------------|--------------------------------------------------------|-------------------------------------------------------------|
| 96                                  | Surplus Payable | 790                                 | 96                                                     | 694                                                         |
| <b>96</b>                           | <b>Total</b>    | <b>790</b>                          | <b>96</b>                                              | <b>694</b>                                                  |

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

The Office budgeted to break even and therefore did not budget for any change in surplus payable. The Office had surpluses of \$50k for the year ending 30 June 2005, \$46k for the year ending 30 June 2007. As a result of the current year surplus of \$694k the Office has a surplus payable to the Cayman Islands Government in the amount of \$790k (30 June 2010: \$96k) as the Minister of Finance has not informed the Office if it can retain the surpluses from prior years as at the date of these financial statements.

**NOTE 7: CONTRIBUTED CAPITAL**

Pursuant to the 2010/11 and 2009/10 Annual Budget of the Cayman Islands Government, goods and services provided between core government entities would not incur a cost. The Office received goods and services from other core government entities during the current year and prior year with no charge. In 2010/11, management was unable to estimate the fair value of these contributed goods and services due to the lack of accounting systems to track the costs of these transactions in accordance with IPSAS 23 – Revenue from non-exchange transactions (taxes and transfers).

For the year ending 30 June 2010, management was able to estimate the fair value of these contributed goods and services to be \$181k (see Notes 10 and 14), which was based on amounts paid to those government entities in prior years for similar services received in 2009/10. The Office recorded these transactions as expenses in 2009/10 (human resource services, financial support services, legal services, computer hardware & systems support services, and software licensing fees) within the Statement of Financial Performance and as a capital contribution from Government in the Statement of Changes in Net Worth.

**NOTE 8: REVENUE**

| <b>2009/10<br/>Actual<br/>\$000</b> |                                                      | <b>2010/11<br/>Actual<br/>\$000</b> | <b>2010/11<br/>Final/Original<br/>Budget<br/>\$000</b> | <b>2010/11<br/>Actual vs.<br/>Original Budget<br/>\$000</b> |
|-------------------------------------|------------------------------------------------------|-------------------------------------|--------------------------------------------------------|-------------------------------------------------------------|
|                                     | <b>Revenue</b>                                       |                                     |                                                        |                                                             |
| 574                                 | Audit Services provided to Public Accounts Committee | 533                                 | 560                                                    | (27)                                                        |
| 1,491                               | Audit Services provided to other government agencies | 2,153                               | 1,551                                                  | 602                                                         |
| <b>2,065</b>                        | <b>Total Revenue</b>                                 | <b>2,686</b>                        | <b>2,111</b>                                           | <b>575</b>                                                  |

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

In regards to audit services provided to PAC this was \$27k less than the budgeted dollar amount and \$41k less than the prior year amount due to a shift in priorities to clear the back log of financial statement audits of various Government entities.

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**NOTE 8: REVENUE (continued)**

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

The 2010/11 amount for audit services provided to other government agencies increased by \$602k over budget and \$662k over the prior year as a result of the focus on clearing the back log of financial statements. A significant number more of financial statement audits were completed than were anticipated in the budget.

**NOTE 9: PERSONNEL COSTS**

| <b>2009/10<br/>Actual<br/>\$000</b> |                                                     | <b>2010/11<br/>Actual<br/>\$000</b> | <b>2010/11<br/>Final/Original<br/>Budget<br/>\$000</b> | <b>2010/11<br/>Actual vs.<br/>Original Budget<br/>\$000</b> |
|-------------------------------------|-----------------------------------------------------|-------------------------------------|--------------------------------------------------------|-------------------------------------------------------------|
| 1,400                               | Salaries (including employee pension contributions) | 1,420                               | 1,404                                                  | 16                                                          |
| 160                                 | Health insurance                                    | 145                                 | 158                                                    | (13)                                                        |
| 80                                  | Employer pension expense                            | 80                                  | 80                                                     | -                                                           |
| 68                                  | Other personnel costs                               | 17                                  | 27                                                     | (10)                                                        |
| 15                                  | Severance pay                                       | -                                   | -                                                      | -                                                           |
| <b>1,723</b>                        | <b>Total Personnel Costs</b>                        | <b>1,662</b>                        | <b>1,669</b>                                           | <b>(7)</b>                                                  |

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

Salaries

In 2010/11, the Office's salaries were over budget due to overtime payments made to employees for the extra hours worked to clear the back-log of financial statement audits. The extra overtime payments were offset by the Government's imposed 3.2% reduction in employee salaries and therefore the Office incurred only \$20k more in salaries from the prior year.

Health insurance

Health insurance benefits were less than budget by \$13k and \$15k from prior year due to a 10% reduction in premium rates.

Other personnel costs

The Office had savings from budget (\$10k) in other personnel costs as a result of recruiting new staff locally and therefore the Office did not incur flight, freight costs and other related expenses for recruitment. The decrease of \$51k in other personnel costs from the prior year was as a result of: motor car upkeep reduced by 75% for each employee and there were no recruitments from overseas.

Severance Pay

In 2009/10 a staff member retired on medical grounds and was entitled to severance pay of \$15k under Schedule 1 section 20(6) of the Personnel Regulations, 2006. There were no severance payments made in 2010/11.

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**NOTE 10: OPERATING EXPENSES**

| <b>2009/10<br/>Actual<br/>\$000</b> |                                 | <b>2010/11<br/>Actual<br/>\$000</b> | <b>2010/11<br/>Final/Original<br/>Budget<br/>\$000</b> | <b>2010/11<br/>Actual vs.<br/>Original Budget<br/>\$000</b> |
|-------------------------------------|---------------------------------|-------------------------------------|--------------------------------------------------------|-------------------------------------------------------------|
| 129                                 | Operating leases                | 124                                 | 124                                                    | -                                                           |
| 110                                 | Professional fees               | 91                                  | 162                                                    | (71)                                                        |
| 14                                  | Other goods and services        | 27                                  | 29                                                     | (2)                                                         |
| 5                                   | Travel & subsistence            | 22                                  | 20                                                     | 2                                                           |
| 31                                  | Utilities                       | 17                                  | 25                                                     | (8)                                                         |
| 59                                  | Software licensing fees         | 10                                  | 19                                                     | (9)                                                         |
| 10                                  | Janitorial services             | 10                                  | 12                                                     | (2)                                                         |
| 4                                   | Training                        | 6                                   | 24                                                     | (18)                                                        |
| 4                                   | Insurance                       | 3                                   | 4                                                      | (1)                                                         |
| 70                                  | Computer hardware maintenance   | 2                                   | 2                                                      | -                                                           |
| <b>436</b>                          | <b>Total Operating Expenses</b> | <b>312</b>                          | <b>421</b>                                             | <b>(109)</b>                                                |

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

Operating Leases

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

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

Professional Fees

Professional fees were under budget (\$71k) as a result of: not hiring external consultants to deal with the backlog of financial statement audits (savings of \$45k); audit fees were \$12k less than budget as a result of change in the *Public Management & Finance Law* no longer requiring the audit of the Statement of Outputs Delivered; and we incurred \$14k less in legal fees for the 2010/11 year in comparison to budget.

The 2009/10 actual amount was \$19k higher than the 2010/11 amount, due to the following: 1) professional fees \$40k higher than in 2009/10, 2) legal fees in total were \$48k less than in 2009/10 as a result of outside legal expertise being obtained in 2009/10 for a grievance filed by an ex-employee for wrongful dismissal and the inclusion of the estimated fair value (\$30k) of legal services being available and provided by Government's Legal Department; and 3) audit fees being \$11k less than 2009/10 as a result of no audit required for the Statement of Outputs Delivered.

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

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

Utilities

Utilities were under budget by \$8k as a result of cost of electricity being less than we anticipated and controlling our electricity usage. The decrease of \$14k in utilities over the prior year was as a result of a not being able to estimate the fair value of the telephone services provided by the Lands & Survey department and the Telecommunications Office for maintenance of the Office's telephone system being connected with the rest of the Government's telephone system; whereas, in 2009/10 we estimated the fair value to be \$15k (see Notes 7 and 14) in accordance with IPSAS 23 for non-exchange transactions.

Travel & Subsistence

During 2010/11, the Office spent \$22k (30 June 2010: \$5k) on travel and subsistence. This included business related trips in 2010/11 to: Cayman Brac for financial statement and performance audits; Namibia - 21<sup>st</sup> Commonwealth Auditor General's Conference (held every 3 years); Barbados - CAROSAI Conference; London – INTOSAI Conference; Buenos Aires, Argentina – CReCER Conference; and local hotel and car rental expenses for consultants working on performance audits (2009/10: business related trips to: Cayman Brac for financial statement and value-for-money audits; London – Maritime Authority financial statement audit; Belize - CAROSAI conference; and to Miami for a value-for-money audit). There was an increase in the 2010/11 actual expenses of \$17k from prior year as a result of the increase in number of Conferences attended, distances travelled and local expenses incurred for consultants.

Software Licensing Fees & Computer Hardware Maintenance

Software licensing fees were under budget by \$9k as a result of license fees being less than expected and not purchasing some Office wide software programs. The decrease of \$49k and \$68k in software licensing fees and computer hardware maintenance over the prior year was as a result of a not being able to estimate the fair value of the software licensing fees and computer hardware maintenance services provided by the Computer Services Department of the Cayman Islands Government; whereas, in 2009-10 we estimated the fair value to be \$121k (see Notes 7 and 14) in accordance with IPSAS 23 for non-exchange transactions.

Training

Training expenses were under budget by \$18k as a result of: 1) only one of the two Caymanian employees undertook their CPA studies this year resulting in a lower CPA training cost; and 2) the costs for professional training courses for all professional staff and government accountants in International Standards in Auditing (ISA), International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards were borne by the Portfolio of Civil Service.

We provided funding for other staff training activities such as: Leadership Cayman, CISA, IPSAS, ISA, and Caseware audit software in order for staff to also obtain their continuing professional development hours.

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**NOTE 11: COMMITMENTS**

| Type                                                           | One year or less | One to five years | Over five years | 2011 Total | 2010 Total |
|----------------------------------------------------------------|------------------|-------------------|-----------------|------------|------------|
|                                                                | \$000            | \$000             | \$000           | \$000      | \$000      |
| <b>Capital Commitments</b>                                     | -                | -                 | -               | -          | -          |
| Land and buildings                                             | -                | -                 | -               | -          | -          |
| Other fixed assets                                             | -                | -                 | -               | -          | -          |
| Other commitments                                              | -                | -                 | -               | -          | -          |
| <b>Total Capital Commitments</b>                               | -                | -                 | -               | -          | -          |
| <b>Operating Commitments</b>                                   |                  |                   |                 |            |            |
| Non-cancellable accommodation leases (see note 10)             | 123              | 246               | -               | 369        | 492        |
| Other non-cancellable leases                                   | -                | -                 | -               | -          | -          |
| Non-cancellable contracts for the supply of goods and services | -                | -                 | -               | -          | -          |
| Other operating commitments                                    | -                | -                 | -               | -          | -          |
| <b>Total Operating Commitments</b>                             | <b>123</b>       | <b>246</b>        | <b>-</b>        | <b>369</b> | <b>492</b> |
| <b>Total Commitments</b>                                       | <b>123</b>       | <b>246</b>        | <b>-</b>        | <b>369</b> | <b>492</b> |

**NOTE 12: CONTINGENT LIABILITIES**

**Summary of Quantifiable Contingent Liabilities**

|                                             | 2011<br>\$000 | 2010<br>\$000 |
|---------------------------------------------|---------------|---------------|
| <b>Legal Proceedings and Disputes</b>       |               |               |
| None                                        | -             | -             |
| <b>Total Legal Proceedings and Disputes</b> | <b>-</b>      | <b>-</b>      |

**Other Contingent Liabilities**

|                                           |          |          |
|-------------------------------------------|----------|----------|
| None                                      | -        | -        |
| <b>Total Other Contingent Liabilities</b> | <b>-</b> | <b>-</b> |

**Summary of Non-Quantifiable Contingent Liabilities**

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

None                      Unknown

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

| 2009/10<br>Actual<br>\$000 |                                                 | 2010/11<br>Actual<br>\$000 | 2010/11<br>Final/Original<br>Budget<br>\$000 | 2010/11<br>Actual vs.<br>Original Budget<br>\$000 |
|----------------------------|-------------------------------------------------|----------------------------|----------------------------------------------|---------------------------------------------------|
| (112)                      | Net Surplus/(deficit)                           | 694                        | -                                            | 694                                               |
|                            | <b>Non-cash movements</b>                       |                            |                                              |                                                   |
| 18                         | Depreciation                                    | 18                         | 21                                           | (3)                                               |
| 18                         | (Decrease)/Increase in payables/accruals        | (50)                       | 1                                            | (51)                                              |
| (67)                       | Decrease/(increase) in receivables              | (330)                      | -                                            | (330)                                             |
| 181                        | Contributed goods and services                  | -                          | -                                            | -                                                 |
| <b>38</b>                  | <b>Net cash flows from operating activities</b> | <b>332</b>                 | <b>22</b>                                    | <b>310</b>                                        |

**NOTE 14: RELATED PARTY TRANSACTIONS**

As indicated in the approved 2010/11 and 2009/10 Annual Budget Statement of Government there were no inter-agency charges between core government entities, except for audit services revenue. As a result the Office was unable to make an estimate of the fair value of these contributed goods and services received for the 2010/11; whereas, in 2009/10 a fair value estimate was made as discussed in Notes 7 and 10.

Key Management Personnel

There are four senior managers in the Office. Their remuneration includes: regular salary, pension contributions, health insurance contributions, acting allowance, motor car upkeep, leave passages and shipping of goods. Total remuneration for senior management in 2010/11 was \$522k (2009/10: \$532k). There were no loans made to key management personnel or their close family members in 2010/11 (2009/10: \$0).

**NOTE 15: FINANCIAL RISK MANAGEMENT**

The Office is exposed to a variety of financial risks including credit risk and liquidity risk. The Office's risk management policies are designed to identify and manage these risks, to set appropriate risk limits and controls, and to monitor the risks and adhere to limits by means of up to date and reliable information systems. These risks are managed within the parameters established by the *Financial Regulations (2010 Revision)*.

Credit Risk

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

The Office is exposed to potential loss that would be incurred if the counterparty to the bank balances 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.

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

Credit Risk (continued)

The Office is also exposed to a significant concentration of credit risk in relation to accounts receivables, all of which are due from other Government entities. No credit limits have been established. As at 30 June 2011 and 2010, no provision for doubtful debts has been made as none of these assets are impaired and management considers these debts to be recoverable in full. Notwithstanding the concentration risk in relation to accounts receivables, management does not consider the Office to be exposed to significant credit risk as all of the counterparties are other Government entities.

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

Liquidity Risk

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

The ability of the Office to meet its debts and obligations is dependent upon its ability to collect the debts outstanding to the Office in a timely basis. Management manages liquidity risk through monitoring cash flows from debtors, 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 2011 and 2010, 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 2011 and 2010, the carrying value of cash and cash equivalents, accounts receivable, work in progress, accounts payable, employee entitlements, and surplus payable upon demand approximate their fair values due to their relative short-term maturities.

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

## APPENDIX 3 – OUTPUTS DELIVERED 2010/11

The outputs to be delivered in 2010/11 to the PAC as per the Annual Budget Statement for the OAG.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                            |                       |                       |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-----------------------|-----------------------|
| AUD 2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Investigations and Reports |                       |                       |
| <b>Description</b><br><br>Audit reports and advice to Public Accounts Committee (PAC) and other Legislative Committees on the Government’s annual financial statement, investigations, Value-For-Money (VFM) audits and advisory and consultation reports on: <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; and</li><li>• Matters of public interest suggested by the Governor, Legislative Assembly, Public Accounts Committee (PAC) or Cabinet.</li></ul> |                            |                       |                       |
| <b>Measures</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                            | <b>2010/11 Actual</b> | <b>2010/11 Budget</b> |
| <b>Quantity</b> <ul style="list-style-type: none"><li>• Number of reports on the results of the EPS financial audit</li><li>• Number of special investigation reports in response to requests</li><li>• Number of planned value-for-money audit/review reports</li><li>• Number of advisory and consultations reports</li></ul>                                                                                                                                                                                                                                                                                                                                                                                                                                         |                            | 1<br>1<br>0<br>2      | 1<br>1-3<br>2<br>1-3  |
| <b><u>Completion of Work in Progress Brought Forward</u></b> <ul style="list-style-type: none"><li>• Number of planned value-for-money audits/reviews reports</li><li>• Number of advisory and consultations reports</li></ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                            | 0<br>0                | 1-3<br>2              |
| <b>Quality</b> <ul style="list-style-type: none"><li>• Issued special investigation, VFM, and advisory and consultation reports 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></ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                            | 100%<br>100%          | 100%<br>100%          |
| <b>Timeliness</b> <ul style="list-style-type: none"><li>• All Reports become public documents within one week of submission to the Honourable 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>                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                            | 100%<br>100%          | 100%<br>100%          |

| AUD 2                                                                                                                                                             | Investigations and Reports |                   |                   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------|-------------------|
|                                                                                                                                                                   |                            | 2010/11<br>Actual | 2010/11<br>Budget |
| <b>Location</b><br>Cayman Islands: Office of the Auditor General, 3 <sup>rd</sup> Floor Anderson Square, George Town, and Client premises (local & international) |                            | 100%              | 100%              |
| <b>Cost (of producing the Output)</b>                                                                                                                             |                            | \$347,399         | \$545,000         |
| <b>Price (paid by PAC for the output)</b>                                                                                                                         |                            | \$504,425         | \$545,000         |
| <b>Related Broad Outcome:</b><br>9. Restoring Prudent Fiscal Management                                                                                           |                            |                   |                   |

| AUD 8                                                                                                                                                                                                                                                                                                                                                                                                    | Support Services to the National Hurricane Committee and Hazard Management |                       |                       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|-----------------------|-----------------------|
| <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                       |                                                                            |                       |                       |
| Advice and assistance to the National Hurricane Committee (NHC) and Hazard Management Department, which includes providing strategic direction for the National Emergency Operations Centre, Support Services Group when a national disaster occurs and provide oversight and monitoring through the Logistics Support System (LSS) for the distribution of international aid donated to the Government. |                                                                            |                       |                       |
| <b>Measures</b>                                                                                                                                                                                                                                                                                                                                                                                          |                                                                            | <b>2010/11 Actual</b> | <b>2010/11 Budget</b> |
| <b>Quantity</b>                                                                                                                                                                                                                                                                                                                                                                                          |                                                                            |                       |                       |
| • Number of Memo of Understandings (MOU) updated                                                                                                                                                                                                                                                                                                                                                         |                                                                            | 0                     | 3                     |
| • Number of National Hurricane Committee’s annual preparation meetings attended                                                                                                                                                                                                                                                                                                                          |                                                                            | 2                     | 1-3                   |
| • Number of National Hurricane Committee / International Aid Management (IAM) Administrative meetings attended                                                                                                                                                                                                                                                                                           |                                                                            | 2                     | 1-3                   |
| • Number of training sessions provided on LSS                                                                                                                                                                                                                                                                                                                                                            |                                                                            | 1                     | 1                     |
| • Number of Hazard Management Plan Report updated                                                                                                                                                                                                                                                                                                                                                        |                                                                            | 1                     | 1                     |
| • Number of relief support services provided through the National Emergency Operations Centre due to a disaster                                                                                                                                                                                                                                                                                          |                                                                            | 0                     | 1                     |
| <b>Quality</b>                                                                                                                                                                                                                                                                                                                                                                                           |                                                                            |                       |                       |
| • MOUs are prepared by senior management and agreed and signed off by the Auditor General                                                                                                                                                                                                                                                                                                                |                                                                            | 100%                  | 100%                  |
| • The NHC/IAM meetings are attended by senior management and/or auditor general and advice is in accordance to the NHC standard                                                                                                                                                                                                                                                                          |                                                                            | 100%                  | 100%                  |
| • LSS training evaluation rated as good to very good by the participants                                                                                                                                                                                                                                                                                                                                 |                                                                            | 80-100%               | 80-100%               |
| • Hazard Management Plan prepared in accordance with the Hazard Management Cayman Islands standards                                                                                                                                                                                                                                                                                                      |                                                                            | 100%                  | 100%                  |
| • Relief support services provided to the standards required by Hazard Management Cayman Islands                                                                                                                                                                                                                                                                                                         |                                                                            | 80-100%               | 80-100%               |

|                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                   |                           |                           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|---------------------------|---------------------------|
| <b>AUD 8</b>                                                                                                                                                                                                                                                                                                                                                                                     | <b>Support Services to the National Hurricane Committee and Hazard Management</b> |                           |                           |
| <b>Timeliness</b> <ul style="list-style-type: none"> <li>• MOU signed off by mid June</li> <li>• NHC annual preparation meeting held in May/June</li> <li>• NHC / IAM meetings held throughout the year</li> <li>• LSS training session held in May</li> <li>• Hazard Management Plan submitted by May 31</li> <li>• Relief Support services provided within two days of the disaster</li> </ul> |                                                                                   | <b>2010/11<br/>Actual</b> | <b>2010/11<br/>Budget</b> |
|                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                   | 100%                      | 100%                      |
|                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                   | 100%                      | 100%                      |
|                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                   | 100%                      | 100%                      |
|                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                   | 100%                      | 100%                      |
|                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                   | 100%                      | 100%                      |
|                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                   | 90-100%                   | 90-100%                   |
|                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                   |                           |                           |
| <b>Location</b><br>Cayman Islands                                                                                                                                                                                                                                                                                                                                                                |                                                                                   | 100%                      | 100%                      |
| <b>Cost (of producing the Output)</b>                                                                                                                                                                                                                                                                                                                                                            |                                                                                   | <b>\$52,005</b>           | <b>\$14,615</b>           |
| <b>Price (paid by PAC for the output)</b>                                                                                                                                                                                                                                                                                                                                                        |                                                                                   | <b>\$28,826</b>           | <b>\$14,615</b>           |
| <b>Related Broad Outcome</b><br>9. Restoring Prudent Fiscal Management                                                                                                                                                                                                                                                                                                                           |                                                                                   |                           |                           |

## **Contact us**

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## **Complaints**

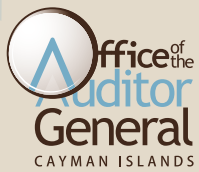
To make a complaint about one of the organisations we audit or about the OAG itself, please contact Garnet Harrison at our address, telephone or fax number or alternatively email: [garnet.harrison@oag.gov.ky](mailto:garnet.harrison@oag.gov.ky)

## **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**

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July 2012