

Auditors Oversight Authority

CAYMAN ISLANDS

Annual Report
for the
Year Ended 30 June 2013

Auditors Oversight Authority
Annual Report
for the year ended 30 June 2013

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Auditors Oversight Authority Managing Director's Report

I am pleased to be able to present my first report as Managing Director of the Auditors Oversight Authority (AOA). The accompanying Annual Board Report reports on the activities of AOA during its first fiscal period, May 1, 2012 to June 30, 2013.

What I would like to do is to report on AOA's plans for the fiscal year ending June 30, 2014 and beyond. First and foremost we would like to commence, with the assistance of the Institute of Chartered Accountants of England and Wales, our first round of inspections of firms under our purview. We anticipate these inspections will take place in the fall of 2014, likely in November subject to comments in the following paragraph.

Before we can get the ball rolling on inspections we need to complete the compilation of our Rules which, in turn, is dependent on our being able to have amendments to the Auditors Oversight Law (Law) and Regulations to the Law statutorily approved.

We believe all of this is achievable in time to permit us to meet our timeline.

In the meantime there are a number of other matters which will need to be addressed such as planning for the inspections, considering the need for, and where a need is identified, the preparation of guidance in respect to inspection related matters.

Another important objective for the coming year is the submission of equivalence assessments to the relevant bodies in the European Union and Japan. The EU and several other countries have introduced procedures to allow their own auditor oversight bodies to place reliance on the work of institutions such as the AOA when the system of public oversight within which those institutions operate are assessed as being equivalent. If the Cayman Islands system of oversight is deemed equivalent, then recognized auditors will avoid "double checking" by foreign auditor regulators. When appropriate, the AOA will also enter into memoranda of understanding with other foreign oversight bodies to establish cooperative relationships.

I am happy to report that the AOA was accepted as a member of International Forum of Independent Audit Regulators (IFIAR) in February 2014 and that I represented the AOA at the IFIAR plenary meeting in April 2014 in Washington, D.C. Membership of IFIAR is an important demonstration of the AOA's commitment to meet relevant international standards applicable to its operations.

Donald Cockburn

Managing Director

Auditors Oversight Authority Annual Board Report for the year ended 30 June 2013

The Auditors Oversight Authority (the “AOA”) was established by The Auditors Oversight Law, 2011 (the “Law”) which came into force on 1 May 2012. The Board members are: Messrs. Michael Austin (Chairman), Paul Anderton (Deputy Chairman), Kenneth Jefferson (as Financial Secretary of the Cayman Islands), Alastair Swarbrick (as Auditor General of the Cayman Islands), and Alister Mason. Mr. Donald Cockburn was appointed Managing Director of the AOA in August 2013 and is also a Board member, *ex officio*.

The function of the AOA is to regulate and supervise auditors who audit the financial statements of market traded companies from or within the Cayman Islands (referred to as “recognized auditors” under the Law). Market traded company is also a defined term under the Law and essentially is a company some or all of whose securities are traded on a regulated market which is defined as the Cayman Islands Stock Exchange, a market regulated by a member state of the European Union (the “EU”; there are approximately 30 such markets) specified by the AOA by notice in the Cayman Islands Gazette or any other market specified by the AOA by notice in the Gazette.

Since its first meeting in May 2012, the Board has met quarterly and has been working to establish systems of oversight, quality assurance, investigation and penalties to enable the AOA to carry out its responsibilities under the Law. Significant activities during the period May 1, 2012 to June 30, 2013 were as follows:

- Continued the process of engaging a Managing Director;
- Commenced the development of the Rules under which auditors of market traded companies will be subject to the AOA’s system of oversight, quality assurance and investigation and seeking the views of representatives of those auditors regarding the efficacy of those Rules;
- Concluded an agreement with the Institute of Chartered Accountants of England and Wales (the “ICAEW”) whereby the ICAEW will conduct inspections, under our direction and on our behalf, of auditors of market traded companies;
- Pursuing equivalence status with audit oversight regulators in the European Community;
- Pursuing the completion of a memorandum of understanding with the Certified Public Accountants Auditing Oversight Board, Japan;
- Made application to become a member of the International Forum of Independent Audit Regulators;
- Published an article on the AOA in the Cayman Financial Review;
- Issued a comment letter to The International Auditing and Assurance Standards Board on their Consultative Paper “A Framework for Audit Quality”; and
- Developed a Code of Ethics and a Register of Interests, both to be completed annually by Board members.

The Board expects the AOA to become fully operational in 2014.

Auditors Oversight Authority Board of Directors

Board Composition

The AOA Board comprises:

- The AOA's Managing Director (ex officio)
- The Auditor General of the Cayman Islands
- The Financial Secretary of the Cayman Islands
- 3 directors appointed by the Cayman Islands Government, to be retired public accountants and one of whom is not resident in the Cayman Islands.

Board Members

Chairman: Michael Austin, MBE, FCA

Michael Austin is a Fellow of the Institute of Chartered Accountants in England and Wales, an Associate Member of The Chartered Institute of Taxation, a Member of the Society of Trust and Estate Practitioners, a Member of the Cayman Islands Society of Professional Accountants, a Member of the Cayman Islands Institute of Directors, and a Notary Public of the Cayman Islands.

He served as the Managing Partner of the Cayman Islands office of KPMG Peat Marwick for 23 years. Since retiring in July 1992, Mr. Austin has been a consultant and currently serves as Non-Executive Director on several company boards, including those of a number of structured investment vehicles, mutual funds, trust and insurance companies. He served as a Director of the Cayman Islands Monetary Authority from January 1997 and was appointed Chairman of the Board in January 2003, a position he held until his retirement on 31 July 2004. He has also served on a variety of other Government committees and Government related boards, including the Cayman Islands Agricultural and Industrial Development Board, as Chairman; the Stock Exchange Committee; and the Government/Private Sector Consultative Committee. In 1990 Mr. Austin was awarded an MBE by Her Majesty the Queen in recognition of services to the public and business community.

Deputy Chairman: Paul Anderton, BA(Hons), FCA

Paul Anderton is a Fellow of the Institute of Chartered Accountants in England and Wales. He had a career with Pricewaterhouse Coopers in Cayman from 1983 to June 2010, serving as audit engagement leader for a wide variety of clients in the financial services industry (including banks, trust companies, hedge funds, special purpose vehicles, captive insurance and reinsurance companies) as well as several non-financial services entities. He was the firm's Assurance Services leader and Risk Management Partner and is a past president of Cayman Islands Society of Professional Accountants.

Managing Director: Donald Cockburn, FCPA, FCA

Donald (Don) Cockburn served as Vice President of Canadian Public Accountability Board (CPAB) from 2004 to 2010 where he led numerous inspections of accounting firms of various sizes and served on CPAB's Management Committee. He was also a Member of the Canadian Institute of Chartered Accountants (CICA) Auditing Standards Committee from 1982 to 1988, serving as Chair of that Committee from 1987 to 1988. The Auditing Standards Committee (now the Auditing and Assurance Standards Committee) is charged with setting auditing and assurance standards in Canada. He acted as a consultant to Ernst & Young Canada, Ernst & Young International and the CICA auditing standards department (now the Auditing and Assurance Standards department) from 1997 to 2003. Prior to that, he was with Ernst & Young Canada as a client handling partner and as a partner in the National Audit Office for 29 years in total.

Mr. Cockburn was the Editor of the Audit column (now the Assurance column) for the CA Magazine (now the CPA Magazine) from 1984 to 1996, personally authoring numerous articles on auditing, and taught auditing courses both at the undergraduate and graduate levels at the School of Accountancy (now the School of Accounting and Finance), University of Waterloo, Canada.

Mr. Cockburn served as a consultant to the Auditors Oversight Authority from May 2012 until August 2013 when he was appointed its Managing Director.

Director: Kenneth Jefferson, FCA, JP

Kenneth Jefferson was appointed Financial Secretary on 1 November 2004. As Financial Secretary, he is the chief policy advisor to the Premier and Minister of Finance and has overall responsibility for all aspects of the government's regulatory, fiscal and budget management operations.

Prior to joining the Civil Service, Mr. Jefferson worked in public accounting in both the Cayman Islands and London, England offices of Price Waterhouse (now PricewaterhouseCoopers) and Ernst & Young. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Director: Alister Mason, PhD, FCPA, FCA, FCMA

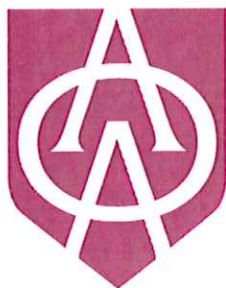
Alister Mason is a consultant in Toronto who has worked with the Ontario Securities Commission, the Canadian Institute of Chartered Accountants (CICA) and the International Federation of Accountants. Previously, he was with Deloitte & Touche and its predecessor firms for over thirty years, which included periods as an audit partner in the Toronto Office and in the Canadian firm's National Office. He then served as Director of the School of Accounting and Finance at the University of Waterloo (the largest such School in Canada), followed by four years with the Canadian Public Accountability Board (Canada's independent audit regulator).

Mr. Mason has been active in professional bodies and the community. He is a Past President of the Canadian Academic Accounting Association. The CICA commissioned him to write comprehensive studies on *Related Party Transactions* and *Professional Judgment in Financial Reporting*; he has also written several other studies and dozens of articles. His doctoral dissertation, from the University of Lancaster in the UK, was published under the title *The Development of International Financial Reporting Standards*. Also, he has made presentations at a training conference of the International Forum of Independent Audit Regulators.

Director: Alastair Swarbrick, MA (Hons),CPFA

Alastair Swarbrick is the Auditor General of the Cayman Islands and has overall responsibility for the management and work of the Office of the Auditor General. He has over 20 years experience in public auditing across a variety of sectors and working for a number of organizations including the UK National Audit Office in London and Audit Scotland, where he was an Assistant Director of Audit overseeing a portfolio of audits and leading the Business Improvement Unit which was responsible for developing and managing projects to improve the way that Audit Scotland delivered its work. He is a member of the Chartered Institute of Public Finance and Accountancy.

All board members except Mr. Cockburn were appointed with effect from 2 May 2012. Mr. Cockburn was appointed on 19 August 2013.



Auditors Oversight Authority

CAYMAN ISLANDS

Audited Financial Statements
for the
Fiscal Year Ended 30 June 2013

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Auditors Oversight Authority
Statement of Responsibility for Financial Statements
30 June 2013

These financial statements have been prepared by the Auditors Oversight Authority in accordance with the provisions of the Public Management and Finance Law (2012 Revision). The financial statements comply, in all material respects, with generally accepted accounting principles as defined in International Public Sector Accounting Standards.

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 (2012 Revision).

As the Board of the Authority, we are responsible for establishing, and have established and maintained a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorized by law, and properly record the financial transactions of the Auditors Oversight Authority.

As the Board of the Authority we are responsible for the preparation of the Auditors Oversight Authority financial statements and for the judgments made in them.

The financial statements fairly present the statement of financial position, statement of financial performance, statement of cash flows and statement of changes in net worth for the financial year ended 30 June 2013.

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

- (a) completely and reliably reflect the financial transactions of the Auditors Oversight Authority for the year ended 30 June 2013;
- (b) fairly reflect the financial position as at 30 June 2013 and financial performance for the year ended 30 June 2013; and
- (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.

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



Michael Austin MBE, FCA

Chairman

Date: 28 FEBRUARY 2014



Paul Anderton, FCA

Deputy Chairman

Date: 28 FEBRUARY 2014

AUDITOR GENERAL'S REPORT

To the Board of Directors of the Auditors Oversight Authority

In accordance with section 60(1)(a)(ii) of the *Public Management and Finance Law (2012 Revision)* I have audited the accompanying financial statements of the Auditors Oversight Authority, which comprise the statement of financial position as at 30 June 2013 and the statement of financial performance, statement of changes in net worth and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 8 to 17 in accordance with the provisions of Section 28(3) of the *Auditors Oversight Law, 2011*.

Management's Responsibilities 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Audit Oversight Authority as at 30 June 2013 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards ("IPSAS").

Other Matters

Under International Public Sector Accounting Standards, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. The Auditors Oversight Authority commenced operations on 1 May 2012, as such the comparative information disclosed in the financial statements reflects two months of operations ending 30 June 2012. The financial statements for the Auditors Oversight Authority for the year ended 30 June 2012 were not audited.



Garnet Harrison, CA
Acting Auditor General

28 February 2014
Cayman Islands

AUDITORS OVERSIGHT AUTHORITY STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013 (Expressed in Cayman Islands dollars)					
30 June 2012 Prior Period Actual (Unaudited) (Note 2b)		Note	30 June 2013 Current Year Actual	2012/13 Final Budget	Variance (Budget vs Actual)
	Current Assets				
-	Cash and cash equivalents	3	291,637	113,625	178,012
18,000	Trade receivables		-	-	-
-	Prepayments	4	5,599	-	5,599
18,000	Total Current Assets		297,236	113,625	183,611
	Non-Current Assets				
-	Property, plant and equipment		-	21,375	(21,375)
-	Total Non-Current Assets		-	21,375	(21,375)
18,000	Total Assets		297,236	135,000	162,236
	Current Liabilities				
-	Unearned revenue	6	160,724	-	(160,724)
27,644	Trade payables	5	28,512	35,000	6,488
-	Other payables and accruals	5	8,000	-	(8,000)
27,644	Total Current Liabilities		197,236	35,000	(162,236)
27,644	Total Liabilities		197,236	35,000	(162,236)
(9,644)	Net Assets		100,000	100,000	-
	NET WORTH				
-	Contributed capital		100,000	100,000	-
(9,644)	Accumulated surpluses/(deficits)		-	-	-
(9,644)	Total Net Worth		100,000	100,000	-
The accounting policies and notes on pages 8-17 form an integral part of these financial statements.					

AUDITORS OVERSIGHT AUTHORITY STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013 (Expressed in Cayman Islands dollars)					
Prior Period Actual (Unaudited) (Note 2b)		Note	Current Year Actual	Final Budget	Variance (Budget vs Actual)
43,942	Revenue	6	179,276	340,000	(160,724)
43,942	Total Revenue		179,276	340,000	(160,724)
	Expenses				
18,000	Directors Fees	7, 11	108,000	200,000	92,000
35,586	Operating Expenses	8	61,632	136,375	74,743
-	Depreciation	9	-	3,625	3,625
53,586	Total Expenses		169,632	340,000	170,368
(9,644)	Surplus or (Deficit) for the year		9,644	-	9,644
The accounting policies and notes on pages 8-17 form an integral part of these financial statements.					

AUDITORS OVERSIGHT AUTHORITY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2013 (Expressed in Cayman Islands dollars)					
Prior Period Actual (Unaudited) (Note 2b)		Note	Current Year Actual	Final Budget	Variance (Budget vs Actual)
	CASH FLOWS FROM OPERATING ACTIVITIES				
	<i>Receipts</i>				
-	Outputs to Cabinet		358,000	340,000	18,000
-	Directors Fees		(108,000)	(200,000)	92,000
-	Operating Expenses		(58,363)	(101,375)	43,012
-	Net cash flows from operating activities	10	191,637	38,625	153,012
	CASH FLOWS FROM INVESTING ACTIVITIES				
	Purchase of property, plant and equipment		-	(25,000)	25,000
-	Net cash flows from investing activities		-	(25,000)	25,000
	CASH FLOWS FROM FINANCING ACTIVITIES				
-	Equity Investment		100,000	100,000	-
-	Net cash flows from financing activities		100,000	100,000	-
-	Net increase/(decrease) in cash and cash equivalents		291,637	113,625	178,012
-	Cash and cash equivalents at beginning of year		-	-	-
-	Cash and cash equivalents at end of year		291,637	113,625	178,012
The accounting policies and notes on pages 8-17 form an integral part of these financial statements.					

AUDITORS OVERSIGHT AUTHORITY
STATEMENT OF CHANGES IN NET WORTH
FOR THE YEAR ENDED 30 JUNE 2013
(Expressed in Cayman Islands dollars)

Attributable to Cayman Islands Government

	Contributed Capital	Reserves	Revaluation Reserve	Accumulated Surplus/(deficits)	Total Net worth	Final Budget	Variance (Budget vs Actual)
Balance at 30 June 2011	-	-	-	-	-	-	-
Equity Investment from Cabinet							
Surplus/(deficit) for the period 2011/12				(9,644)	(9,644)	-	(9,644)
Repayment of surplus to Cabinet	-	-	-	-	-	-	-
Balance at 30 June 2012 carried forward (unaudited)	-	-	-	(9,644)	(9,644)	-	(9,644)

Attributable to Cayman Islands Government

	Contributed Capital	Other Reserves	Revaluation Reserve	Accumulated Surplus/(deficits)	Total	Final Budget	Variance (Budget vs Actual)
Balance at 30 June 2012 brought forward	-	-	-	(9,644)	(9,644)	-	(9,644)
Equity Investment from Cabinet	100,000				100,000	100,000	-
Surplus/(deficit) for the year 2012/13				9,644	9,644	-	9,644
Repayment of surplus/Dividends to Cabinet	-	-	-	-	-	-	-
Balance at 30 June 2013	100,000	-	-	-	100,000	100,000	-

The accounting policies and notes on pages 8-17 form an integral part of these financial statements.

Auditors Oversight Authority
Notes to the Financial Statements
For the year ended 30 June 2013

1. Establishment and principal activities

The Auditors Oversight Authority (the “Authority” or the “AOA”) was established as an independent entity by The Auditors Oversight Authority Law, 2011 (the “Law”), and commenced operations on 1 May 2012 when the Law came into force. The Authority is responsible for the regulation and supervision of auditors who audit the accounts of market traded companies from or within the Cayman Islands, which auditors are required by the Law to be entered in a register maintained by the Authority (“Recognized Auditors”). The Authority subjects Recognized Auditors to its systems of oversight, quality assurance, investigation and penalties by, inter alia, monitoring compliance by Recognized Auditors with the Rules of the Authority.

From formation through to 30 June 2012, the funding was provided partly by the Cayman Islands Monetary Authority (“CIMA”) and partly by the Cayman Islands Government. For the year ended 30 June 2013, funding was provided by the Cayman Islands Government. Whilst the Authority expects to derive revenue from Recognized Auditors in future, it is likely that it will be dependent upon Government funding for the foreseeable future; the Board believes that it is the policy of the present Government to continue to provide such funding.

As at 30 June 2013, the Auditors Oversight Authority had no employees. The Auditors Oversight Authority is located at the Government Administration Building, Elgin Avenue, George Town Grand Cayman, Cayman Islands. Correspondence may be sent to P.O. Box 133, Grand Cayman KY1-9000, Cayman Islands.

2. Significant accounting policies

(a) 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

2. Significant accounting policies (continued)

accounting except as modified for the revaluation of financial instruments at fair value [see (j) below].

(b) Comparative amounts

The comparative amounts are unaudited and are for the period from the commencement of operations on 1 May 2012 to 30 June 2012.

(c) Use of estimates

The preparation of financial statements in accordance with IPSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenue and expense during the year. 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 could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the reporting period and in any future periods that are affected by those revisions.

(d) Budget amounts

The 2012/13 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 amounts shown in these financial statements were included in the 2012/13 Annual Budget Statement of the Government of the Cayman Islands and were not revised after approval by the Legislative Assembly on the 29 August 2012.

(e) Foreign currency translation

Assets and liabilities denominated in currencies other than Cayman Islands dollars are translated at exchange rates in effect at the financial statement date. Revenue and expense transactions denominated in currencies other than Cayman Islands dollars are translated at exchange rates at the date of those transactions. Gains and losses arising on translation are included in the statement of financial performance.

2. Significant accounting policies (continued)

(f) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are considered as cash held on demand and fixed deposits with an original maturity of three months or less.

(g) Accounts receivable

Accounts receivable are recognized initially at fair value and are subsequently reviewed for impairment. Where there is objective evidence that a debt will not be collected by the Authority according to the agreed terms, a provision for bad debt is established.

(h) Property, Plant and Equipment

Property, Plant and Equipment, is recorded at historical cost less accumulated depreciation. Items of property, plant and equipment are initially recorded at cost. Where an asset is acquired for nil or nominal consideration, the asset is recognized initially at fair value, where fair value can be reliably determined, and as revenue in the statement of financial performance in the year in which the asset is acquired.

Depreciation is expensed on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment (other than land); less any estimated residual value, over its estimated useful life. Leasehold improvements are depreciated either over the unexpired period of the lease or the estimated useful life of improvements, whichever is shorter.

<u>Asset Type</u>	<u>Estimated Useful Life</u>
Furniture	12 years
Office Equipment	5 years
Computer Equipment	3 years

(i) Revenue recognition

The Authority earns revenue primarily from the provision of Outputs to the Cabinet. Revenues are recognized when the outputs agreed in the Annual Plan and Estimates have been delivered.

2. Significant accounting policies (continued)

(j) Financial Instruments

i. Classification

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset, exchange financial instruments under conditions that are potentially favourable or an equity instrument of another enterprise. Financial assets are comprised of cash and cash equivalents and trade receivables.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial instrument or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable. Financial liabilities are comprised of trade payables, other payables and accruals.

ii. Recognition

The Authority recognizes financial assets and financial liabilities on the date it becomes party to the contractual provision of the instrument.

iii. Measurement

Financial instruments are measured initially at the fair value of the consideration given or received. Subsequent to initial recognition, all financial assets and liabilities are recorded at fair value and any gains and losses arising from changes in fair value are recognized in the statement of financial performance in the period in which they arise. At 30 June 2013 and 2012 all financial assets and liabilities were carried at historical cost, which is considered to approximate fair value due to the short-term or immediate nature of these instruments.

iv. Derecognition

A financial asset is derecognized when the Authority realizes the rights to the benefits specified in the contract or loses control over any right that comprise that asset. A financial liability is derecognized when it is extinguished, that is when the obligation is discharged, cancelled or expired.

2. Significant accounting policies (continued)

(k) Provisions and contingencies

Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and where it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized but are disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

(l) Subsequent events

Post year-end events that provide additional information about the Auditors Oversight Authority position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the notes to the financial statements when material.

(m) Revenue from Non Exchange Transactions

The Authority receives various services from other government entities for which payment is made by the Cayman Islands Government. These services include administrative services from the Ministry of Finance, Economics and Development. AOA has designated these non-exchange transactions as Services in-kind as defined under IPSAS 23- Revenue from non-exchange transactions. When the fair values of such services can be reliably estimated then the non-exchange transaction is recorded as an expense and an equal amount is recorded in other income as a service in-kind. When the service in-kind offered is directly related to construction or acquisition of a fixed asset, such service in-kind is recognized in the cost of the fixed asset.

No amounts were recognized in these financial statements in respect of Services in-kind as management are unable to estimate the fair value of the goods and services received from other core government entities due to the lack of accounting systems to track the costs of these transactions in accordance with IPSAS 23.

Auditors Oversight Authority
Notes to the Financial Statements
For the year ended 30 June 2013

3. Cash and cash equivalents

The Authority operates a chequing account with Royal Bank of Canada.

Description	Actual 2012/13	Prior Year Actual (unaudited)
CI\$ Operational Current Account held at Royal Bank of Canada – Cayman Islands	291,637	-
TOTAL	\$291,637	-

4. Prepayments

Prepayments comprise a deposit of \$4,849 paid for fixed assets not received in the 2012-13 financial year and prepaid expenses of \$750.

5. Trade payables & Other payables and accruals

Trade payables represent the value of goods and service received for which no cash consideration has been provided as at the statement of financial position date. As at 30 June 2013 and 2012, the AOA had the following trade payables:

Description	Current	Non-Current	Actual 2012/13	Prior Year Actual (unaudited)
Creditors – board members fees & expenses	22,993	-	22,993	27,644
Creditors - consulting fees	5,519	-	5,519	-
Total	\$28,512	-	\$28,512	\$27,644

Audit fees of \$8,000 have been accrued as at 30 June 2013.

6. Outputs to the Legislative Assembly

The Authority provides services to the Cabinet of the Cayman Islands Government under an agreement established in the Annual Plan and Estimates. The 2012/13 Annual Plan and Estimates established legal provisions for the AOA to provide a maximum of \$340,000 in services.

Auditors Oversight Authority
Notes to the Financial Statements
For the year ended 30 June 2013

6. Outputs to the Legislative Assembly (continued)

The Ownership Agreement between the Authority and the Cayman Islands Government for the 2012/3 financial year required the Authority to establish the Rules governing recognized auditors and develop the oversight system for recognized auditors. As at 30 June 2013 these objectives had not been achieved. As the Authority was not able to make a reliable estimate of the percentage of completion of its obligations under the Ownership Agreement, it recognized as revenue only that portion of funding received from Government equal to the expenses incurred in the year ended 30 June 2013 and the net deficit brought forward at 1 July 2012. The balance of funding was deferred as “unearned revenue”.

Revenue type	Actual 2012/13	Prior Year Actual (unaudited)
Funding received: AOA 1 Auditors Oversight Authority	340,000	43,942
Funding deferred as “Unearned revenue”	160,724	-
Total revenue recognized in the year/period	\$179,276	\$43,942

7. Personnel costs

Personnel costs refer to salaries, wages, health care costs, pension and other financial considerations associated with services provided by the employees of the Authority. The only personnel cost being incurred by the AOA in 2011/12 and 2012/13 are associated with costs relating to board members.

Description	Actual 2012/13	Prior Year Actual (unaudited)
Directors' fees	108,000	18,000
Salaries, wages and allowances	-	-
Health care	-	-
Pension	-	-
Leave	-	-
Other personnel related costs	-	-
Total Personnel costs	\$108,000	\$18,000

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8. Operating Expenses

Operating Expenses include various goods and services provided to the Authority where otherwise not classified in the statement of financial performance.

Descriptions	Actual 2012/13	Prior Year Actual (unaudited)
Purchase of services	32,349	18,300
Travel and Subsistence	19,351	16,411
Audit fees - Auditor General's Office	8,000	-
Supplies and Materials	1,296	875
Other expenses	636	-
Total Operating Expenses	\$61,632	\$35,586

Other expenses related to inter-entity expenses.

9. Property, Plant and Equipment

The AOA meets in a building owned by the Government of the Cayman Islands and as such had no property, plant or equipment as at the 30 June 2013 (despite plans in the budget to purchase such assets for use by employees). Deposits paid for office furniture and leasehold improvements not delivered until the 2013-14 financial year are included in Prepayments at 30 June 2013.

10. Reconciliation of surplus/(deficit) to net cash flows from operating activities

Description	Actual 2012/13	Prior Year Actual (unaudited)
Surplus/(deficit) from ordinary activities	9,644	(9,644)
Decrease/(increase) in current assets	12,401	(18,000)
Increase in current liabilities	169,592	27,644
Net cash flows from operating activities	\$191,637	\$0

11. Related Party and key management personnel disclosures

The Auditors Oversight Authority is a wholly owned entity of the Government of the Cayman Islands from which it derives a major source of its revenue.

The Cayman Islands Financial Secretary and Auditor General are directors; neither is remunerated separately by the Authority.

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11. Related Party and key management personnel disclosures (continued)

Key management personnel remuneration

Key management personnel remunerated by the AOA include the Chairman, the Deputy Chairman and another independent Board member. For the 2012/13 fiscal year, these individuals received the following considerations for their services:

Description	Actual 2012/13	Prior Year Actual (unaudited)
Salaries & other short-term employee benefits		
-Directors' fees	108,000	18,000
Past employee benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Loans	-	-
Total	\$108,000	\$18,000

In addition, in 2012/2013 and 2011/2012 consulting fees of CI\$26,300 and CI\$7,625, respectively were paid to the Managing Director-designate (whose position as managing director was formalized in August 2013), and consulting fees of CI\$10,675 were paid in 2011/2012 to a director.

12. Budget variances

The 2012/13 budget was established before it was possible to assess the extent to which the Authority would become operational during the fiscal year; in addition the scope of the Authority's work and, hence, its operational revenues and expenses are affected by changes in legislation in other jurisdictions and changes in the client base of those auditors which fall under the Authority's supervision.

The Authority did not become fully operational in 2012/13 and although it received the amounts budgeted for "outputs to cabinet", its expenses were lower than budget, and cash at the end of the year was accordingly higher than budget. Of particular note was the significant delay in the appointment of the managing director and establishment of an office (both of which were not finalised until after 30 June 2013) and the resultant lower than budgeted personnel costs and fixed assets amounts.

13. Financial risk management

At 30 June 2013, the Authority held CI\$291,637 in financial instruments represented by cash and cash equivalents at one financial institution in the Cayman Islands. As such, the AOA is exposed to credit related losses in the event of non-performance by the financial institution. However, given the high credit rating of this financial institution, the Authority does not anticipate any material losses as a result of this concentration.

Currency and interest risk

The Authority has no significant exposure to currency exchange loss risk and interest risk.

Liquidity risk

In meeting its liquidity requirements, the Authority closely monitors its forecast cash requirements with expected cash drawdowns from the Cabinet. All financial liabilities (creditors and payables) are normally settled in less than six months from the date of the financial statements.