



AUDITORS OVERSIGHT AUTHORITY

Report to those charged with governance on the 2014/15 audit

October 2015

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spend wisely*

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REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 30 June 2015 financial statements of the Auditors Oversight Authority ("AOA"). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Auditors Oversight Authority ("AOA") in sufficient time to enable appropriate action. The matters we are required to communicate under ISAs include:
 - auditors responsibilities in relation to the audit
 - the overall scope and approach to the audit, including any expected limitations, or additional requirements
 - relationships that may bear on our independence, and the integrity and objectivity of our staff
 - expected modifications to the audit report
 - significant findings from our audit
2. This report sets out for the consideration of those charged with governance those matters arising from the audit of the financial statements for 2014/15 that we consider are worthy of drawing to your attention, so that you can consider them before the financial statements are approved and signed.
3. This report has been prepared for the sole use of those charged with governance and we accept no responsibility for its use by a third party. Under the Freedom of Information Act (2009) it is the policy of the Office of the Auditor General to release all audit reports upon request.

AUDITORS RESPONSIBILITIES IN RELATION TO THE AUDIT

AUDITOR'S RESPONSIBILITY UNDER INTERNATIONAL STANDARDS ON AUDITING

4. ISAs require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters and this report includes only those matters of interest which came to our attention as a result of the performance of our audit.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE:

5. Management's responsibilities are detailed in the engagement letter to which this engagement was subject. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS:

6. While we have no responsibility to perform any work on other information, including forward looking statements, in documents containing audited financial statements, we read the information contained in the Auditors Oversight Authority annual report to consider whether such information is materially inconsistent with information appearing in the financial statements or our knowledge of the operations of the Auditors Oversight Authority. We have not reviewed any other documents containing the Auditors Oversight Authority audited financial statements.

CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT

7. Information on the integrity and objectivity of the Office of the Auditor General and audit staff, and the nature and scope of the audit, were outlined in the Engagement Letter presented to the chairman of the Board of Directors dated 17 August 2015, and follow the requirements of the ISAs. We are not aware of any impairment to our independence as auditors.

AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATIONS

8. We issued an unmodified auditor's report on the financial statements.
9. Appendix 1 summarizes those uncorrected misstatements identified by us during the audit that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
10. As part of the completion of our audit we seek written representations from management on aspects of the accounts, judgements and estimates made. We have requested that management provide us with representations in respect of our financial statement audit, which they have provided to us.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Auditors Oversight Authority significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Auditors Oversight Authority to make accounting estimates and judgments about accounting policies and financial statement disclosures. We are not aware of any areas where the significant accounting practices have changed from previous year or are not consistent with general industry practice. In addition we are not aware of any new or controversial accounting practices reflected in the Auditors Oversight Authority financial statements.
12. Details of any significant findings from the audit are included in Appendix 2 along with management's response.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES:

13. There were no matters which required management to make significant judgments or which required significant estimates.

GOING CONCERN DOUBTS:

14. As a result of our audit, we did not become aware of any material uncertainties related to events and conditions that may cast significant doubt on the Auditors Oversight Authority ability to continue as a going concern.

MATERIAL WEAKNESSES IN INTERNAL CONTROL:

15. We identified a number of significant matters relating to internal controls as part of our audit. These include:
 - Lack of segregation of duties between management and the Board (re-iteration from prior year).
 - Inconsistent foreign exchange rate for conversion of expenses to reporting currency (re-iteration from prior year).
 - Inadequate general ledger accounting and record keeping. (Re-iteration from prior year)

- Bank reconciliations not done in a timely manner and no indication of reviewer and preparer sign off.

16. Details are included in Appendix 3 along with management's response.

FRAUD OR ILLEGAL ACTS:

17. Applicable auditing standards recognize that the primary responsibility for the prevention and detection of fraud and compliance with applicable laws and regulations rests with both those charged with governance of the entity and with management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, and fraud deterrence. They are also responsible for establishing and maintaining controls pertaining to the entity's objective of preparing financial statements that are presented fairly, in all material respects, in accordance with the applicable financial reporting framework and managing risks that may give rise to material misstatements in those financial statements. In exercising oversight responsibility, those charged with governance should consider the potential for management override of controls or other inappropriate influence over the financial reporting process.
18. As auditors, in planning and performing the audit, we are required to reduce audit risk to an acceptably low level, including the risk of undetected misstatements in the financial statements due to fraud. However, we cannot obtain absolute assurance that material misstatements in the financial statements will be detected because of such factors as the use of judgment, the use of testing, the inherent limitations of internal control and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature.
19. No fraud or illegal acts came to our attention as a result of our audit.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT:

20. No serious difficulties were encountered in the performance of our audit.

DISAGREEMENTS WITH MANAGEMENT:

21. We have had no disagreements with management resulting from our audit.

ANY OTHER SIGNIFICANT MATTERS

22. No other significant matters were raised during the audit.

ACKNOWLEDGEMENTS

23. We would like to express our thanks to the staff of the Auditors Oversight Authority for their help and assistance during the audit of this year's financial statements.
24. If you would like to discuss the results of our audit or any other matters in further details please feel free to call me at (345) 244-3213.

Your sincerely,



Garnet Harrison, CPA, CA
Acting Auditor General

APPENDIX 2 – SUMMARY OF UNADJUSTED DIFFERENCES

Date	Name	Account No.	Debit	Credit
6/30/15	Admin fees	54262	1,408.00	
6/30/15	Accrued expenses	20150		1,408.00

To record the amount not accrued for admin fees

APPENDIX 3 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response
<p><u>Reiteration from prior year.</u></p> <p>There is no segregation of duties between the Board and management. A member of the Board is involved in the preparation of the accounting records which in an ideal situation should strictly be a management role. We however note that given AOA is still in formative stages and there is only one staff member, it might not be practical to clearly segregate board and management roles.</p>	<p><u>Risk/Implication</u> Lack of segregation of duties between management and the Board dilutes the oversight role that the Board is supposed to conduct.</p> <p><u>Recommendation</u> As segregation of duties is one of the core elements of internal control, a focus should be placed on creating some level of separation between management and Board roles within the AOA.</p>	<p>We agree segregation of duties is an important element of internal control. For that reason the Managing Director (MD) reviews AOA's bank statement on line on virtually a daily basis and raises questions when he does not recognize the activity.</p>
<p><u>Reiteration from prior year.</u></p> <p>Foreign exchange rates used to convert expenses to the reporting currency fluctuate and are not consistent. Also noted some minor Forex expense relating to salary expense as salary is being paid in Canadian dollars but quoted in Cayman dollars.</p>	<p><u>Risk/Implication</u> Lack of a consistent policy regarding foreign exchange translations creates errors and inaccurate recording of transactions. It may not be material at the current volume of transactions but should be monitored for future.</p> <p><u>Recommendation</u> As the KYD to USD exchange rate is a fixed rate AOA should use a consistent rate in their conversion to ensure all transactions involving foreign currency are reported in a similar manner.</p>	<p>All payments are in KYD or USD except to one Board member and the MD who are both paid in CAD. The exchange rate from USD to CAD is not fixed which gives rise to small exchange fluctuations between the date the transfers are set up at the bank and the date the bank makes the transfers.</p>
<p><u>Reiteration from prior year.</u></p> <p>Inadequate Book keeping and record keeping – General ledger reporting is done on a cash basis and adjustment passed at year end to reflect accruals or prepayments.</p>	<p><u>Risk/Implication</u> There is a risk of missing accrued expenses and prepayments. Cash basis accounting also does not provide sufficient information for decision making since monthly or quarterly accrual basis general ledger information is not available.</p> <p><u>Recommendation</u> A formal accounting system should be</p>	<p>This risk is mitigated by the MD preparing monthly (SAGC) reports for filing with the Government and he would become aware of material omissions. The MD also prepares the annual budget for AOA and again would become</p>

	implemented especially as AOA becomes fully operational which would increase the volume of transactions.	aware of material omissions When the AOA becomes fully operational we will expand our accounting capability.
Bank reconciliations are not done in a timely manner and there is no indication that they have been reviewed and signed off.	<p><u>Risk/Implication</u> Lack of ownership of the process of preparing and approving the reconciliation.</p> <p><u>Recommendation</u> A bank reconciliation statement should be prepared every month end for every bank account held and then reviewed and signed by another person other than the preparer.</p>	<p>Monthly bank reconciliations are done in a timely manner by the Deputy Chairman.</p> <p>The MD reviews the bank statement virtually on a daily basis and prepares the monthly SAGC report for filing with the Government so he would be aware of any material errors or omissions. When our accounting capability expands we will implement a more formal reconciliation review process.</p>