23 May 2013

The Board of Directors
The National Gallery of the Cayman Islands
PO Box 10197
Easterly Tibbetts Highway
Grand Cayman

And

The Auditor General
Office of the Auditor General
3rd Floor, Anderson Square
George Town
Grand Cayman

Dear Sirs,

We were engaged to audit the financial statements of the National Gallery of the Cayman Islands (the "National Gallery") for each of the years ended June 30, 2010, June 30, 2011 and June 30, 2012 (the "engagements"). You have advised us that the Office of the Auditor General of the Cayman Islands (the "Audit Office") has received a freedom of information request (the "Request") pursuant to the Freedom of Information Law 2007 and that, in connection with that request, the Audit Office plans to provide the requestor with copies of certain reports. Those reports were prepared in accordance with International Standards on Auditing 260 – Communication with those Charged with Governance ("ISA 260") and International Standards on Auditing 265 - Communicating Deficiencies in Internal Control to those Charged with Governance and Management ("ISA 265"), (hereinafter referred to as the "Reports") and were issued in connection with the engagements.

The primary purpose of an audit

The engagement letters, to which the engagements were subject, stated that the services (and hence primary purpose) we were engaged to perform was the audit of the financial statements of the National Gallery in accordance with International Standards on Auditing ("ISA"). The objective of an audit under ISA is the expression of an opinion on whether the financial statements present fairly, in all material respect, the financial position and results of operations of the National Gallery for the period specified. ISA require that we plan and perform the audit to obtain reasonable, not absolute, assurance about whether the financial statements are free of material misstatement.

The engagement letters further stated that we would consider the National Gallery's internal control over financial reporting **solely** for the purpose of determining the nature, timing and extent of auditing procedures necessary for expressing our opinion on the financial statements (emphasis added). The

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engagement letters also stated that this consideration would not be sufficient to enable us to provide assurance on the effectiveness of internal control over financial reporting and that our audits were not designed to identify all deficiencies in the National Gallery's system of internal financial controls.

Purpose of Reports to those Charged with Governance/Restrictions on Use

In accordance with International Standards on Auditing, the purpose of the Reports is to provide those charged with governance of the Audit Office with timely observations arising from the audit of the National Gallery's financial statements regarding, among other matters, appropriate communication about certain types of deficiencies in internal control that we have identified during the audit and that, in our professional judgment, are of sufficient importance to merit their respective attentions.

These Reports were written for a specific purpose as set out under the applicable auditing standards. The subject matter of the Reports is solely based on matters identified by us during the course of the financial statement audits. As noted above, the identification of such matters is not the primary objective of the audit engagement and hence these types of reports are commonly referred to as "by-product reports". The Reports were addressed to the relevant persons or representatives of the National Gallery whose financial statements have been subject to audit, and who are therefore knowledgeable about both (i) the entity's operations and (ii) the nature of a financial statement audit and the inherent limitations in the scope of an audit and specifically an auditor's consideration and testing of, internal controls over financial reporting in a financial statement audit. Accordingly, the Reports include an alert that restricts their use for any other purpose or by persons other than those charged with governance and management. The Reports were written in the context described above and with this assumed level of knowledge and understanding of management and those charged with governance in mind. They were not prepared in the expectation or with an awareness that they may be disclosed to third parties. It is therefore possible that third parties may misunderstand and/or misconstrue the scope and contents of these Reports.

Duty of care

The Reports were addressed to, and were intended solely for the use of, those charged with Governance and Management of the National Gallery and stated that they should not be used for any other purpose or by any other party. Accordingly, we do not accept or acknowledge any responsibility or duty of care to any other party.

Yours faithfully,

PricewaterhouseCoopers

April 16, 2012

The Auditor General
Cayman Islands Audit Office
Tower Building
George Town
Grand Cayman

The Board of Directors
The National Gallery of the Cayman Islands
PO Box 10197
Harbour Place
George Town
Grand Cayman KY1-1102

Dear Sirs,

RE: Audit of June 30, 2011 financial statements

Purpose and use: We have substantially completed our audit of the June 30, 2011 financial statements of the National Gallery of the Cayman Islands (the "Gallery") and, subject to satisfactory completion of our remaining audit procedures, intend to issue a qualified opinion on those statements. Professional standards require that we communicate certain matters to those charged with governance of the Gallery. The following, which is intended solely for the use of the Board of Directors and management of the Gallery, is a summary of that information.

Auditor's responsibility under generally accepted auditing standards: International Standards on Auditing 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 a governance interest which came to our attention as a result of the performance of our audit.

Responsibilities of Management and those charged with governance: 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: We have not reviewed any other documents containing audited financial statements.

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General approach and overall scope of the audit: We applied a top-down, risk-based approach to planning and conducting the audit, through the application of well-reasoned professional judgment. We obtained an understanding of the Gallery's operations and the related risks, which drove our assessment of materiality and identification of audit risks, including significant risks, which are audit risks that require special audit considerations. We also obtained an understanding of how management controls these risks, by considering management's approach to internal controls, and we determined how we will test significant account balances and classes of transactions.

Our audit approach was primarily substantive and included the testing, on sample basis, of significant transactions and balances

Significant accounting practices: We are responsible for providing our views about qualitative aspects of the Gallery's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Gallery 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 Gallery's financial statements.

Significant risks and exposures: Significant risks and exposures are disclosed in the financial statement footnotes.

Management's judgments and accounting estimates: There were no matters which required management to make significant judgments or which required significant estimates.

Significant identified misstatements (both recorded and unrecorded): A summary of audit adjustments made to the financial statements is attached in Appendix 1 to this letter. Appendix 2 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.

Going concern doubts: 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 entity's ability to continue as a going concern.

Significant deficiencies in internal control: (if a separate ICR letter is issued use the following) Matters relating to internal controls identified as part of our audit are outlined in Appendix 3 to this letter.

Fraud or illegal acts: 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.

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.

No fraud or illegal acts came to our attention as a result of our audit.

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

Management representations: We have requested that management provide us with certain representations. The representations that we are seeking from management are available upon request.

Audit report: Our report will contain the following qualification:

Completeness of Revenue - Due to the inherent nature of donations income not being recognized until it is entered into the accounting system and therefore uncontrolled until this point it is not practical to extend our audit procedures beyond the amounts recorded in the financial statements.

Other miscellaneous matters: We are not aware of any consultations between management and other auditors about audit and accounting matters.

We have no questions regarding management integrity. No significant matters were discussed with management prior to our reappointment as auditors.

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

We are not aware of any impairment to our independence as auditors.

Other engagement commitments: There were no other specific matters agreed upon in the terms of our engagement.

If you would like to discuss the results of our audit or any other matters in further detail please feel free to call redacted or redacted at (345) 949-7000.

This letter including any appendices is intended for the purpose and use set out above and should not be used for any other purpose or by any other party. It may not be made available to others without our consent.

Yours faithfully,

PricewaterhouseCoopers

APPENDIX 1: SUMMARY OF ADJUSTED MISSTATEMENTS

Account Balance	Current Asset	Current Liability	Equity
Fixed assets: PPE Bulding	211,198		
Accounts payable KM Limited		(211,198)	
Restricted fund building			211,198
Unrestricted general fund			(211,198)
Cut off error relating to work performed before y/e			
Restricted asests Buildings (Equity)			220,000
Fixed assets: PPE Bulding	(220,000)		
Reverse cost capitalized in FAR/other donations in statement of operations			
Cash and cash equivalents	10,000		
Prepaid credit card	(10,000)		
Relating to a pre-payment on their credit card which was been capitalised to prepayments but for which no expenses could be substantiated (resulting in a pre-payment on their credit card).			
TOTAL	(8,802)	(211,198)	220,000

APPENDIX 2: SUMMARY OF UNADJUSTED MISSTATEMENTS

Account Balance	Current Liabilties	Income Statement
Pension fund (IS)		(4,771)
Accounts payble	(4,771)	
Health Insurance (IS)		(5,619)
Accounts payble Under accrual relating to the company contribution.	(5,619)	
	(10,390)	(10,390)
Financial Statements Totals	230137	58,699
Impact on Financial Statement Line Item	-5%	-18%

APPENDIX 3: MATTERS RELATING TO INTERNAL CONTROLS

In planning and performing our audit of the financial statements of the National Gallery of the Cayman Islands (the "Gallery") as of and for the year ended June 30, 2011, we considered its internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. Our consideration of internal control would not necessarily identify all matters relating to internal controls that might be significant deficiencies (or other deficiencies that are not significant deficiencies) in the design or in the operation of internal controls, as defined under International Standards on Auditing below:

ISA 265 "Communicating deficiencies in internal control to those charged with governance and management" includes the following definitions of a deficiency and a significant deficiency in internal control:

Deficiency in internal control – This exists when:

(i) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, a misstatement in the financial statements on a timely basis; or

(ii) A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.

Significant deficiency in internal control – A deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

We did not identified any deficiencies in internal control that we consider to be significant deficiencies, as defined above. Detailed below for your consideration are a number of deficiencies in internal control and recommendations designed to strengthen business control and improve operating efficiency:

Observation	Implication	Recommendation	*Management's Response
Internal Control Observations:			
Deficiencies in internal control:			
1. It was noted that the monthly bank reconciliations were not formally reviewed and that the initially provided year end reconciliations contained errors.	Given the nature of the business cash controls is of primary importance. If there is not adequate, timely reviews performed on the bank reconciliations this could lead to the risks of errors or misstatements going undetected and remaining unresolved. Further, with cash there is a risk that fraudulent transactions could occur and go undetected such as misappropriation of cash.	It is recommended that formal bank reconciliations are performed on at least a monthly basis and they are signed off by Management having been reviewed and that any anomalies are followed up on a timely basis.	Management acknowledge and accept the recommendations and a professional accounting firm has been hired to review the systems and to address and resolve all points going forward.
2. Inadequate reviews of the financial statements were performed leading to a number of issues in the preparation and presentation of the financial statements.	Without adequate review of the year end financial statements there is a risk that there could be a significant error which goes undetected in the financial statements.	It is recommended that the financial statements and any other reporting documents are prepared by a qualified accountant as close to year end as is practical and that they then undergo a rigorous review by Senior Management and the Board of Directors prior to submitting draft statements to the auditors or the Auditor Generals office.	See above comment.
3. Whilst there appears that Management is closely following the Capital project the recording of	The impact of this is only on misclassification in the equity restricted and unrestricted reserves, however with	It is recommended that the capital account is reconciled and reviewed on a monthly basis to	See above comment.

income and expenses relating to the project was not being booked correctly through the restricted and unrestricted capital accounts.	expenditure on the increase it is important to ensure the correct double entries are recorded for additions to the new building.	the buildings reports provided by BCQS to ensure that the restricted fund is representative of what is remaining for the building project and that the building work is being capitalized on a timely basis and the capital payments are taken out of the restricted fund and booked to unrestricted equity.	
4. It was noted that the fixed assets capital project was not being booked to fixed assets on a timely basis and instead was booked in bulk to the general ledger after a reconciliation of total costs to date was performed by Management	Without timely monitoring and booking of the capital expenditure there is a risk that some of the capital expenses may not be recorded leading to an understatement of the building. There is an associated business risk in that without close monitoring of each capital expense that the project budget could overrun leading to cash flow issues.	It is recommended that as each invoice is received in relation to any fixed asset it is booked upon receipt. It is further recommended that the booked amounts are reviewed on a monthly basis by Management to ensure they are complete and accurate.	See above comment.
5. It was noted that Management was not booking any donations in kind in association with the capital project. Further for those donations in kind Management had not obtained suitable documentation to support the estimated value of such donations.	This could lead to an understatement of the building within fixed assets.	It is recommended that where possible when donations in kind are made that Management request a purchase order to be raised for the value of the goods received. If this is not practical Management should document support for the valuations made by reference to similar products that could be obtained in an arm's length transaction.	See above comment.

6. An accurate fixed assets register was not maintained by the Gallery nor was it reviewed by Management. The fixed assets register had errors such as unidentified opening balances, negative net book values, opening balances which did not agree to the prior year financial statements and incorrect computations of depreciation. Further, there did not appear to be any reconciliation of the fixed assets register to the actual assets maintained by the Gallery. Further there was not a strict asset identification system such as asset ID codes to enable accurate reconciliation of the assets to the register.	There is a risk that the assets could be misstated or there could be assets listed which are no longer in use or exist. The depreciation expense could be incorrectly determined. This is particularly important given the ongoing capital project in which an accurate track of expenditure should be maintained.	A full review of the fixed assets register should be performed both from the register to the assets and from the assets to the register. Further, during this assessment the assets could be labelled with unique asset IDs to enable easy identification in the future. The fixed assets register should be reviewed by Management to remove any obvious errors such as negative book values or unidentified opening balances. If errors are noted they should be updated both on the register and through the general ledger. The fixed assets register should be a real time document which should be updated as and when fixed assets are added or removed. Upon removal of an asset from the register both the cost and the accumulated depreciation should be removed. Management should incorporate monthly reviews of the fixed asset register into their controls procedures.	See above comment.

7. The pensions and health benefits are not being accrued on a regular basis and instead are following a cash based payment system.	The expense and associated accrual for pensions and health benefits could be understated. Whilst the impact is not considered to be material (refer to summary of unadjusted differences) to the financial statements overall there is a risk that without timely accounting the incorrect pensions or health benefits could be being paid which could lead to litigation issues.	It is recommended that pensions and health benefits are recorded and paid on a monthly basis and reviewed by Management.	See above comment.

This report is intended solely for the information and use of the board of directors and other management; it may not be made available to others without our written consent.