



CIVIL AVIATION AUTHORITY OF THE CAYMAN ISLANDS

Report to those charged with governance on the 31 December 2024 audit

May 2025

***To help the public service
spend wisely***

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REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 31 December 2024 financial statements of the Civil Aviation Authority of the Cayman Islands (the “Authority”). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Authority 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; and
 - significant findings from our audit.
2. This report sets out for the consideration of those charged with governance matters arising from the audit of the 2024 financial statements that we consider worthy of your attention.
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 (2021 Revision) it is the policy of the Office of the Auditor General to release all final reports proactively through our website: www.auditorgeneral.gov.ky.

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.
5. 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

6. Management's responsibilities are detailed in the engagement letter dated 13 September 2024 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

7. While we have no responsibility to perform any audit work on other information, including forward looking statements, in documents containing audited financial statements, we will other information contained in the Authority's 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 Authority. We have not reviewed any other documents containing audited financial statements.

CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT

8. 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 Director-General 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

9. We issued an unqualified opinion with an emphasis of matter paragraph in the Auditor General's report on the 2024 financial statements. The emphasis of matter highlights that the Public Authorities Act (2020 Revision), *Section 47 – Terms and conditions and remuneration of staff*, came into effect at 1 June 2019 and required all Statutory Authorities and Government Companies to comply with its requirements to standardise salaries and benefits. There is a difference of opinion between the Authority and the Cayman Islands Government as to whether there is an agreed salary scale which means that this requirement has not been implemented yet and consequently the financial impact is not reflected in these financial statements. The audit opinion is not modified in respect to this matter.
10. A summary of audit adjustments made to the financial statements, totaling to \$3,895,903, is attached in Appendix 1. There were no uncorrected misstatements.
11. As part of the completion of our audit we sought written representations from management on aspects of the accounts and judgments and estimates made. Management provided us with these representations, which formed part of our audit evidence, on 30 April 2025.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

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

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. Management have made significant judgments and estimates with regard to the following financial statements items:

- Depreciation of property, plant and equipment and amortisation of intangible assets (\$232,053).
- Provision for doubtful debts (\$2,221,795).
- Provisions and contingent liabilities (nil).
- Pension asset (\$1,364,000), Defined post-retirement health liability (\$2,852,000) and Defined Contribution post-retirement healthcare liability (\$1,308,000).

GOING CONCERN

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 Authority's ability to continue as a going concern.

MATERIAL WEAKNESSES IN INTERNAL CONTROL

15. Significant deficiencies in internal control are noted in Appendix 2. Other control deficiencies have been identified and communicated separately to management.

FRAUD OR ILLEGAL ACTS

16. Applicable auditing standards recognise 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.

17. 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.

OTHER MATTERS

20. No difficulties were encountered in the performance of our audit.
21. We have had no disagreements with management resulting from our audit.
22. There were no other significant matters noted during the audit.

ACKNOWLEDGEMENTS

23. We would like to express our thanks to the staff of the Authority for their help and assistance during the audit of this year's financial statements.

Yours sincerely,



Patrick Smith, CPA, CFE
Auditor General

APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS

Num	Acc Num	Account Name	Dr	Cr
1	3084 6000	Bad debt expense Bad debt recovery <i>Adjustment to correct the bad debt recovery</i>	80,882	(80,882)
2	433 420 422 7001	Software assets under construction Software Registry Accumulated depreciation - Software Depreciation - Software <i>Reclassification of WIP software to WIP (Incorrectly recognised as software)</i>	12,700 2,117	(12,700) (2,117)
3	424 7000	Accumulated depreciation - Computer hardware Depreciation - Computer hardware <i>Overstatement of depreciation</i>	4,825	(4,825)
4	7003 404	Depreciation - Office building Office Building <i>Overstatement of building depreciation</i>	4,522	(4,522)
5	3090 503	Board expenses Expenses <i>Board stipend for two members</i>	450	(450)
6	501 4009	Accounts payable Travel - UK Office <i>Adjustment for UK office expense</i>	1,628	(1,628)
7	2006 8000 513	Personnel cost - Pension (Gain)/loss on remeasurement of pension Pension - Past service liability <i>Remeasurement of pension asset based on actuarial valuation</i>	27,000 919,000	(946,000)
8	2020 3200 3301	Personnel cost - Medical benefits (Gain)/Loss on remeasurement of health benefits Post retirement health liability - Defined contribution <i>Defined contribution liability based upon actuarial valuation</i>	1,382,000	(74,000) (1,308,000)
9	2020 3200 514	Personnel cost - Medical benefits (Gain)/Loss on remeasurement of health benefits Post retirement healthcare - Defined benefit <i>Remeasurement of Defined benefit liability based upon actuarial valuation</i>	173,000 187,000	(360,000)
10	511 600	Due to Cayman Islands Government Dividend paid <i>Adjustment to account for adjustments passed during the audit</i>	1,100,750	(1,100,750)
			3,895,873	(3,895,873)

APPENDIX 2 – INTERNAL CONTROL MATTERS AND SIGNIFICANT FINDINGS

Observations	Risks/Implications & Recommendations	Accepted by Management?	Management Response
<p>1. <u>No Cabinet approval granted for the Authority's performance bonus scheme</u></p> <p>Upon testing the provision for performance bonuses, we noted that the Authority had not received Cabinet approval as per Section 48 (4) of the Public Authorities Act (2020 Revision) for the use of a performance bonus scheme that began in 2006.</p> <p>This observation is a reoccurring matter as previously noted in the 2023 ISA 260 report.</p>	<p>Risk/Implication</p> <p>Despite the Board approval of the performance-based bonus scheme which has given prior to the introduction of the Public Authorities Act (2020 Revision), in order for the Authority to be in compliance with the current legislation, the Authority is required to obtain Cabinet approval.</p> <p>Cabinet approval helps ensure that decisions are made transparently and with the backing of the government as a whole.</p> <p>Recommendation</p> <p>Management should ensure that the Authority obtains Cabinet approval for its performance bonus scheme, as outlined in Section 48 (4) of the Public Authorities Act (2020 Revision).</p>	N	<p>Section 48 (4) of the Public Authorities Act (PAA) (2020 Revision) states that a public authority shall not "introduce" a bonus or performance payment scheme for staff of the public authority unless the public authority is permitted to do so by the Cabinet. The CAACI's performance incentive scheme was implemented in 2007 following approval by the CAACI board, prior to the implementation of the PAA (2020 Revision). The CAACI is currently in discussion with the Minister C&FS, along with other SAGCs under this Ministry, to clarify this issue and other matters concerning the PAA (2020 Revision).</p>

<p>2. <u>Christmas party expense in excess of the Cayman Islands Government (CIG) stipulated threshold</u></p> <p>The Authorities' 2024 Christmas party cost \$10,866. This represents CI\$418 per person, based on the headcount of 22 as at December 2024.</p> <p>The Cayman Islands Government approved CI\$45 per person as a Christmas stipend for 2024 for the civil service. The Authority's spending is deemed excessive in the context of the Government's expectations.</p>	<p>Risk/implication</p> <p>There is a reputational risk to the Authority as the expenditure is perceived as excessive and does not provide value for money in the use of public funds.</p> <p>Recommendation</p> <p>Management should ensure that the Authority's entertainment expenses are reasonable and aligned with the average spending approved by the Government.</p>	<p>N</p>	<p>The CAACI has not received a formal directive from the Cayman Islands Government in relation to the stipulated \$45 per person as a Christmas stipend. The expenditure for the period remains within the budget approved by the Board of Directors for such events.</p> <p>The Christmas function attendees included employees, their spouses, board members, and their spouses. The expenditure also included awards in recognition of incremental 5-year staff tenure and other notable achievements.</p> <p>The total expenditure also covered the cost of a separate Christmas event held in the United Kingdom for the CAACI's full-time designated contracted surveyors and their spouses.</p>
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