CIVIL AVIATION AUTHORITY OF THE CAYMAN ISLANDS

Report to those charged with governance on the 31 December 2023 audit

June 2024

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 2023 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
   - 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 2023 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.

   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 dated 16 January 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

6. 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

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 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

8. We issued an unqualified opinion with an emphasis of matter paragraph in the Auditor General's report on the 2023 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.

9. A summary of audit adjustments made to the financial statements, totaling to $5,420,221, is attached in Appendix 1. There were no uncorrected misstatements.

10. 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 2024.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. 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

12. 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 ($215,357)
- Provision for doubtful debts ($2,070,027)
- Provisions and contingent liabilities (nil)
- Pension asset ($445,000) and post-retirement health liability ($3,039,000)

GOING CONCERN

13. 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

14. 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

15. 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.

16. 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.

17. 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.

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

OTHER MATTERS

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

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

21. There were no other significant matters noted during the audit.

ACKNOWLEDGEMENTS

22. 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,

Sue Winspear, CPFA
Auditor General

APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS

Num	Acc Num	Account Name	Dr	Cr
1	501 315	Accounts payable Prepaid expenses *Reversal of Willis Re insurance premium incorrectly recognised in 2023 relating to 2024*	26,162	 26,162
2	101 102 104 105 106 111 1011	Fixed Deposit - 023-09345 Fixed Deposit - 023-09346 Fixed Deposits - 023-10944 Fixed Deposits - 023-10946 Fixed Deposits - 023-10945 Fixed Deposit - 023-07857 Interest and other income *Adjustment for accrued interest on fixed deposit*	3,204 3,204 6,417 6,806 3,209 3,409	 26,249
3	503 2005	Accrued expenses Personnel costs - Salaries *Adjustment for over accrual of leave pay provision*	5,183	 5,183
4	508 2000	Payroll liabilities Personnel costs - Staff performance bonus Adjustment to current year performance bonus accrual	24,653	 24,653
5	3039 3015 3040 4009 501 500	General office expenses - Postage charges Marketing expenses - Marketing supplies General office expenses - Bank Charges T&S Recoverable - surveyors Accounts payable - USD Accounts payable *Adjustment for expenses not previously accounted for*	123 410 56 4,439	 589 4,439
6	428 315	Assets under construction Prepaid expense *Reclassification of software development costs from prepaid expense to AUC & software*	73,016	 73,016
7	430 315	Other non-current asset Prepaid expense *Reclassification of CUC deposit from current asset to non-current asset*	8,410	 8,410
8	509 303	Unearned revenue Accounts receivable *Reversal of unearned revenue that had not been receipted before year end*	135,150	 135,150
9	509 820	Unearned revenue ASR Revenue - Flight operations *Adjustment to unearned revenue for time worked in 2023*	19,750	 19,750
10	5024 2004	Legal and professional fees - Accounting services Personnel costs - salaries *Reclassification of accounting services fees from payroll to professional fees*	50,254	 50,254

APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS (CONTINUED)

Num	Acc Num	Account Name	Dr	Cr
10	5024 2004	Legal and professional fees - Accounting services Personnel costs - salaries *Reclassification of accounting services fees from payroll to professional fees*	50,254	 50,254
11	5004 2003	Contracted services - Aerodrome services Personnel costs - salaries - Aerodrome *Reclassification of part time contractor fees from payroll to professional fees*	35,813	 35,813
12	509 303	Unearned revenue Accounts receivable *Reversal of unearned revenue that had not been receipted before year end*	3,500	 3,500
13	3032 421	General office expense - Internet /website/software expenses Software - Licensed *Adjustment to move software subscription -off the shelf software from intangibles to expenses - PY purchases with a NBV greater than nil*	20,407	 20,407
14	422 7001	Accumulated depreciation - software Depreciation software *Adjustment to reverse depreciation of software subscription -off the shelf software relating to PY purchases with a NBV greater than nil*	5,604	 5,604
15	3032 421	General office expense - Internet /website/software expenses Software - Licensed *Adjustment to move software subscription -off the shelf software from intangibles to expenses - CY purchases*	14,341	 14,341
16	422 7001	Accumulated depreciation - software Depreciation software *Adjustment to reverse depreciation of software subscription -off the shelf software relating to CY purchases*	3,030	 3,030
17	7006 414	Depreciation - Vehicles Accumulated depreciation - vehicles *Depreciation - Vehicles (difference between OAG and CAA calculation)*	998	 998
18	428 427	Assets under construction New Office Furniture &Fixtures *Reclassification of deposit for office barrier system to asset under construction*	7,961	 7,961
19	7003 404	Depreciation - Building Accumulated depreciation - Building *Depreciation relating to solar panel*	2,095	 2,095
20	202 3069	NatWest -operating account Exchange (gain)/loss - unrealised *Adjustment for NatWest account translation*	4,512	 4,512

APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS (CONTINUED)

Num	Acc Num	Account Name	Dr	Cr
21	1102 201	Interest and other income NatWest Credit card A/C *Adjustment for NatWest account translation*	423	 423
22	412 411	ROU - Grand Harbour - Accumulated depreciation ROU - Grand Harbour *Removal of nil book asset - ROU*	349,723	 349,723
23	416 411	Lease hold improvements - Accumulated depreciation Leasehold improvements *Removal of nil book asset - Leasehold improvements*	22,715	 22,715
24	3084 304	Bad debt expense Allowance for doubtful debts *Allowance for doubtful debts - Increase for current year provision*	336,959	 336,959
24	3084 304	Bad debt expense Allowance for doubtful debts *Adjustment of AR listing to TB*	14,267	 14,267
25	7003 404	depreciation - Building Accumulated depreciation *depreciation - Building*	3,298	 3,298
26	422 420	Accumulated depreciation - software Software - Licensed *Removal of Nil book value off the shelf assets*	55,219	 55,219
27	3100 2006 513	(Gain)/loss on remeasurement of pension plan Personnel costs - Pesnion expense - Defined benefit plan Pension - Past service liability *Reversal of original entry*	1,491,000	 107,000 1,384,000
28	3100 2006 513	(Gain)/loss on remeasurement of pension plan Personnel costs - Pesnion expense - Defined benefit plan Pension - Past service liability *Remeasurement of defined benefit pension plan*	 39,000 325,000	364,000
29	3200 2020 514	(Gain)/loss on remeasurement of healthcare Personnel costs - Post healthcare Post retirement healthcare obligation *Reversal of original entry*	1,890,000	 405,000 1,485,000
30	3200 514 2020	(Gain)/loss on remeasurement of healthcare Post retirement healthcare obligation Personnel costs - Post healthcare *Remeasurement of post retirement healthcare obligation*	 80,000 263,000	343,000

APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS (CONTINUED)

Num	Acc Num	Account Name	Dr	Cr
31	3031	General office expense - Computer expense	1,075	
	423	Computer hardware purchases		1,075
		Adjustment to correct incorrect capitalized asset below capitalization threshold		
32	7000	Depreciation - Computer	179	
	424	Accumulated Depreciation - Computer		179
		Removal of depreciation incorrectly charged		
33	511	Due to Government	76,247	
	600	Dividends paid		76,247
		Dividend payable based on directive by Government		
			5,420,221	5,420,221

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Observations	Risks/Implications & Recommendations	Accepted by Management?	Management Response
1. **<u>No Cabinet approval granted for the Authority's performance bonus scheme</u>** 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.	**Risks/Implications** 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. Cabinet approval helps ensure that decisions are made transparently and with the backing of the government as a whole. **Recommendations** 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).	**N**	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).
2. **<u>Lack of policy on the sale of disposed assets</u>** From the testing of vehicle asset disposals, we noted that the Authority does not have a written policy regarding the sale of assets to employees.	**Risks/Implications** Not having a written policy could likely lead to potential conflicts of interest, a lack of transparency, and inconsistency in decision-making processes. Furthermore, without clear guidelines in place, staff could interpret the sale of an asset to an employee as favouritism or unfair practices. **Recommendations** Management should ensure that the Authority establishes clear guidelines and procedures for disposing of assets, including vehicles, to ensure equitable and transparent processes.	**Y**	The CAACI policy on Disposition of Assets is covered under Section 12.5.1 of the staff manual, which clearly states the approval authority for the disposition of assets at incremental values. Management will review the current policy to address the issue regarding the sale of assets to employees, as recommended, and amend it as determined by such review.
3. **<u>The authority does not maintain assets within a consolidated fixed asset register</u>**	**Risks/Implications** Keeping asset tracking information and depreciation information separate may lead to	**Y**	The entries in the fixed asset register are exported from the general ledger, the data

The audit team noted that the authority retains information relating to asset tracking separately from the information used in the computation of depreciation. Furthermore, the audit team noted that the authority does not maintain a consolidated fixed asset register, but rather individual schedules for the different classes of assets.	discrepancies and errors in financial reporting, as the two sets of data may not align correctly. Secondly, maintaining separate systems for asset tracking and depreciation can lead to inefficiencies in data management and retrieval. It may require additional time and resources to reconcile the information from both systems. **Recommendations** Management should ensure that the Authority develops and maintains a comprehensive fixed asset register system. The fixed asset register should be a single consolidated register containing information of all classes of assets as well as the tracking information.		including purchase date, details of asset, accumulated depreciation, depreciation expense and brought forward balances are all captured within the fixed assets schedule. The balances are also reconciled against the general ledger to ensure that all assets and depreciation are captured and recorded. The IT team maintains a separate log for computer hardware, including serial numbers, employee distribution, and useful life. Management will review the current format to determine any improvement that may be made to its asset management, and consolidation of the two reports while ensuring compliance with auditing standards.

4. **<u>Incorrect accounting treatment of unearned revenue.</u>** The audit team noted that the authority prematurely recognised unearned revenue liabilities totalling $138,650 where funds were not received before year-end for services to be rendered in the next accounting period. This accounting treatment contravenes the requirement of the *International Financial Report Standards (IFRS) 15 – Revenue from Contracts with Customers (IFRS).* The Authority has adjusted for the incorrect treatment of unearned revenue.	**Risks/Implications** By prematurely recognising unearned revenue, the Authority risks overstating its liabilities, potentially leading to a material misstatement. **Recommendations** Management should ensure that the Authority has processes in place that will ensure that it recognises unearned revenue liabilities for only those instances where the authority has actually received funds before year end.	**Y**	The Authority currently invoices deposits for registration applications received, and AMO / CAMO approvals. The deposits are held in Unearned Revenue until the aircraft has been accepted to the register and the associated approvals issued, after which the entries are recognized in the relevant revenue account. In prior years the unpaid amount in Unearned Revenue was immaterial and no adjustments were made. Due to the amount for the 2023 period, management agreed to make the required adjustment. The CAACI's internal procedures have now been updated to ensure that an analysis is conducted at the year end to ensure that

			any unpaid invoices are removed from Unearned Revenue and Accounts Receivable.
5. **Misclassification of specific transactions and balances** The audit team observed that the authority had recorded contracted services, assets under construction, and non-current assets in the wrong account, which did not align with the nature of the items. The Authority has reclassified the items mentioned above.	**Risks/Implications** By not correctly classifying transactions and balances into the correct account, information provided to management for decision making, is likely to be misrepresented. **Recommendations** Management should ensure that the Authority has processes in place to correctly classify transactions in accordance with their nature.	**Y**	The assets under construction were previously recorded as Prepaid Expenses, as suggested and agreed with the former auditor, KPMG. The correspondence to this effect has been provided to the OAG. The matters on classification were reviewed between the OAG and CAACI, and the required adjustments have been made in the financial year. The CAACI's internal procedures have been updated to ensure the expenses are posted correctly going forward.

6. **<u>Incorrect accounting treatment of off-the-shelf purchased software</u>** The audit team noted upon testing of capital assets, that the authority had been incorrectly capitalizing off the shelf software. These costs do not meet the definition of intangible assets as per ISA 38. The Authority has adjusted for the incorrect treatment of the off-the-shelf purchased software.	**Risks/Implications** The incorrect treatment may result in the overstatement of capital assets and the understatement of expenses. **Recommendations** Management should ensure that the Authority has processes in place that accounts for all off-the-shelf software purchased in the future directly to expenses.	**Y**	The Off-the-shelf accounting was handled in line with our policy for capitalizing assets over $1,000. The threshold of $1,000 was used for both tangible and intangible assets. As many of the off-the shelf purchased software are renewed annually, it was agreed with the OAG that the amounts should be expensed annually, and the CAACI's procedures have been updated accordingly.
7. **<u>No impairment indicator assessment performed over assets</u>** We noted that the Authority has not performed an indicator-based impairment assessment in accordance with IAS 36 for its assets. IAS 36 requires an entity to assess at the end of each reporting period whether there is any indication that an asset.	**Risks/Implications** Without conducting impairment assessments, the authority may overlook potential declines in the value of its assets, which could lead to material misstatement of the financial statements. In addition, inadequate impairment assessments may hinder the authority's ability to identify and	**Y**	The Assets are assessed annually, but it is noted that the impairment policy is not stated in the policy manual. This will be reviewed and updated during the 2024 period.

	address underperforming assets, impacting overall financial performance. **Recommendations** Management should ensure that the Authority perform an indicator-based impairment assessment at the end of each reporting period. The assessment should consider both internal and external sources of information.		