

24 July 2023

The Board of Directors

Civil Aviation Authority of the Cayman Islands
205 Owen Roberts Drive
PO Box 10277
Grand Cayman KY1-1003
CAYMAN ISLANDS

Dear Sirs,

**RE: Audit of 31 December 2022 financial statements – Report to those charged with Governance
Civil Aviation Authority of the Cayman Islands**

Purpose and use: We have completed our audit of the 31 December 2022 financial statements of Civil Aviation Authority of the Cayman Islands (“the Authority”) and have issued an unmodified opinion on those statements. In rendering my audit opinion on the financial statements I have relied on the work carried out on my behalf by a public accounting firm who performed their work in accordance with International Standards on Auditing (ISAs).

Professional standards require that we communicate certain matters to those charged with governance of the Authority. Senior management have been briefed by the public accounting firm’s team on the aspects of this report prior to the final issuance of the financial statements.

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 proactively release all audit reports on its website. www.auditorgeneral.gov.ky

AUDITOR’S RESPONSIBILITIES IN RELATION TO THE AUDIT

Auditor’s responsibility under International Standards on Auditing: 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 will review the Authority's 2022 annual report containing audited financial statements and will provide clearance for management to publish the annual report, when we are satisfied that there are no material inconsistencies, as required by the ISAs.

GENERAL APPROACH AND OVERALL SCOPE OF THE AUDIT

The accounting firm applied a top-down, risk-based approach to planning and conducting the audit, through the application of well-reasoned professional judgment. They obtained an understanding of the Authority'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. They also obtained an understanding of how management controls these risks, by considering management's approach to internal controls, and determined how they will test significant account balances and classes of transactions.

The accounting firm's audit approach involved a mixture of substantive testing, on sample basis, of significant transactions and balances.

Their audit approach also made use of experts to support the audit process around the valuation of the defined benefit pension and medical liabilities.

AUDIT REPORT, SIGNIFICANT IDENTIFIED UNRECORDED MISSTATEMENTS AND MANAGEMENT REPRESENTATIONS

We have issued an unmodified audit opinion on the financial statements.

Corrected misstatements are reported in Appendix 1 while 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 are outlined in Appendix 2.

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 has provided us with written representations in respect of our financial statement audit in a letter dated 30 April 2023.

SIGNIFICANT FINDINGS FROM THE AUDIT

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 Authority's ability to continue as a going concern.

Significant accounting practices: 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 that are not consistent with general industry practice. Additionally, we are not aware of any areas where the significant accounting practices have changed from previous year.

We are not aware of any new or controversial accounting practices reflected in the Authority'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 other than in respect of the valuation of the Defined benefit pension obligation and Post-retirement healthcare liability disclosed in the financial statements.

Our views on management judgments relating to accounting estimates are based solely on the work performed in the context of our audit of the financial statements taken as a whole. We express no assurance on individual financial statement captions.

Significant and other deficiencies in internal control: In the course of conducting the audit, CAA's non-compliance with the Procurement Act and Regulations came to our attention that constitutes a significant deficiency in internal control. Appendix 3 outlines this matter together with our recommendation. We have likewise included the management's response which we have not audited.

In addition, we have communicated to management directly other internal control deficiencies, that are not significant, through a letter to the management issued by the public accounting firm.

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 unresolved disagreements on significant matters with management resulting from our audit.

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 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.

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

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.

If you would like to discuss the results of our audit or any other matters in further detail please feel free to call Mr. Julius Aurelio at (345) 244-3202 or me at (345) 244-3204.

Yours sincerely,



Patrick Smith, CFE, CPA
Acting Auditor General

APPENDIX 1: SUMMARY OF CORRECTED MISSTATEMENTS

Expressed in Cayman Islands Dollars (KYD)

Account		Debit	Credit
		\$	\$
DR	Other receivable	67,067	
CR	Accounts payable and accrued liabilities <i>To reclassify individual accounts receivable that had credit balances at year-end.</i>		67,067
DR	Capital Assets	11,250	
CR	General office (expense) <i>To record amounts as expenses previous recorded as assets under software</i>		11,250
DR	Capital Assets	43,165	
CR	Other receivables <i>To record depreciation related to software costs</i>		43,165
DR	Depreciation expenses	88,599	
CR	Accumulated Depreciation <i>To record additional depreciation costs for the year based on calculation of building depreciation on a componentized basis</i>		43,165
DR	Bad debts (expense)	325,000	
CR	Allowance for doubtful debts <i>To record additional impairment losses related to the disputed billing of the regulatory fees to charged to the Airport Authority</i>		325,000

APPENDIX 2: SUMMARY OF UNCORRECTED MISSTATEMENTS

Expressed in Cayman Islands Dollars (KYD)

Account		Debit	Credit
DR	Retained earnings (for 2021 depreciation expense)	\$ 32,592	\$
CR	Accumulated depreciation – building <i>To record additional depreciation costs for the year based on calculation of building depreciation on a componentized basis</i>		32,592

APPENDIX 3: SIGNIFICANT CONTROL DEFICIENCY

	Observation	Risk or Implication / Recommendations	Management Response
1)	<p>The appointment of overseas contractors was not in compliance with the Procurement Act and Regulations</p> <p>The CAA appoints contractors in different parts of the world who inspect aircrafts on its behalf in accordance with UK Overseas Territories aviation legislative instruments. The CAA has historically followed an appointment process that does not incorporate all of the relevant requirements of the Procurement Act and Regulations e.g.:</p> <ul style="list-style-type: none"> • Business cases that complies with Regulation 3, including who are responsible for reviewing and approving • Public or open invitations for persons or companies to tender • The entity procurement committee (EPC) should review the invitation to tender, evaluate bids, recommend a 	<p><u>Risk or implication:</u></p> <p>An entity that fails to comply with procurement framework:</p> <ul style="list-style-type: none"> - does not set the right tone of good governance. - is unable to demonstrate whether it has achieved value for money for its spend on services. <p><u>Recommendation:</u></p> <p>The Director-General of Civil Aviation (DGCA) should ensure that the requirements of the Procurement Act and Regulations are complied with when the CAA appoints its overseas contractors.</p> <p>Going forward, the DGCA should direct the preparation of a business case (Regulation 3) and identify the contracts that are going to be procured, and identify the appropriate project manager for the contracted services.</p>	<p>The Director-General and CAACI senior management are collaborating with the Director CPO and his staff on the matter and will ensure that all the requirements of the Procurement Act and Regulations are complied with going forward.</p>

	winning bid, and review draft contracts	The EPC should ensure when it reviews the business case that it complies with Regulation 3. The DGCA and the EPC should ensure that CAA publishes its invitation to tender publicly, including the government procurement website Regulation 6[1]). The EPC should also review the invitation to tender, evaluate bids, recommend a winning bid, and review draft contracts.	
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