



**GENERAL REGISTRY  
REVENUE AUDIT  
Audit Report**

February 2014  
INTERNAL AUDIT UNIT  
CAYMAN ISLANDS GOVERNMENT

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## I. EXECUTIVE SUMMARY

Under the Public Management and Finance Law, the Internal Audit Unit (IAU) is required to review the management systems of all ministries, portfolios, statutory authorities and government companies.

In accordance with the 2012-2013 Audit Plan, we recently concluded a revenue audit of the General Registry.

### Summary of Major Findings

During the audit, a number of control weaknesses were identified which impact negatively on the administration of the revenue process. We have summarized below the major findings of control weaknesses along with our recommendations and management responses for corrective action geared towards improvement.

Finding	Recommendation	Management Response & Action
There was no evidence of periodic reconciliations being performed between GRSS and IRIS.	The Registrar should ensure reconciliations between IRIS and GRSS are performed.	Management agrees with the recommendation and notes reconciliations will be resumed once a Financial Administrator is employed.
We noted that a transaction was manually overridden in GRSS.	The Registrar should ensure that any manual overriding of the system is restricted, authorized and documented. In cases where manual overriding is necessary, this should be documented and subjected to review by a person in a supervisory position to minimize occurrences of errors or fraud.	Management agrees with the finding and has indicated that more stringent controls over the override process will be instituted to address the issue.  Implementation will be done by July 2014.
We noted that changes in the share capital of a sample of companies were not correctly reflected in the GRSS system.	The Registrar should ensure that data entered into the system is subject to independent review.	Management agrees with the finding and notes that the Registry is in the testing phase of an online registration system.  Additionally, a secondary review to further mitigate against the risk of mis-statement will be performed once a Financial Administrator is recruited.  Implementation will be done by January 2014 for Share capital testing and 26 September 2013 for Online Registration launch.



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Finding	Recommendation	Management Response & Action
We noted that the filing system was inadequate to ensure efficient retrieval of documents.	The registrar should develop policies on filing that adhere to best practice.	Management agrees with the finding and notes that the Registry is in the testing phase of online registration that adheres to financial management best practice. However documents currently held in hard copy will not be re-filed as it would not be cost effective to do so.  Online registration will be launched 26 September 2013.

### Audit Conclusion

Based on the results of our audit work Internal Audit concludes that, except for the opportunities for improvement identified in this report, the Registry's internal controls over the revenue process are operating effectively.

A number of the issues raised in this report are as a result of staffing related issues. Notwithstanding the issues noted, the Registry's Management has taken steps to implement some of the audit recommendations, scheduled the implementation of the remaining audit recommendations, and has committed to ongoing monitoring and review. We believe that once the audit recommendations are fully implemented and the staffing related issues addressed, the internal controls surrounding the Registry's revenue processes will be improved.

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Deloris E. Gordon  
Director, Internal Audit

February 26, 2014



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## II. INTRODUCTION

### Background

The General Registry Department (the "Registry") falls under the Ministry of Financial Services, Commerce and Environment and is responsible for collecting revenue from services provided in regards to registry management and the maintenance of public records. The Registry activities involve the maintenance of a general register for companies, partnerships, trusts, births, deaths, marriages, public records, patents, trademarks, friendly societies, building societies, trade unions, as well as other services to the public and clients relating to these registers.

### Operations and Revenue streams

The Registry primary operations and revenue streams are as follows:

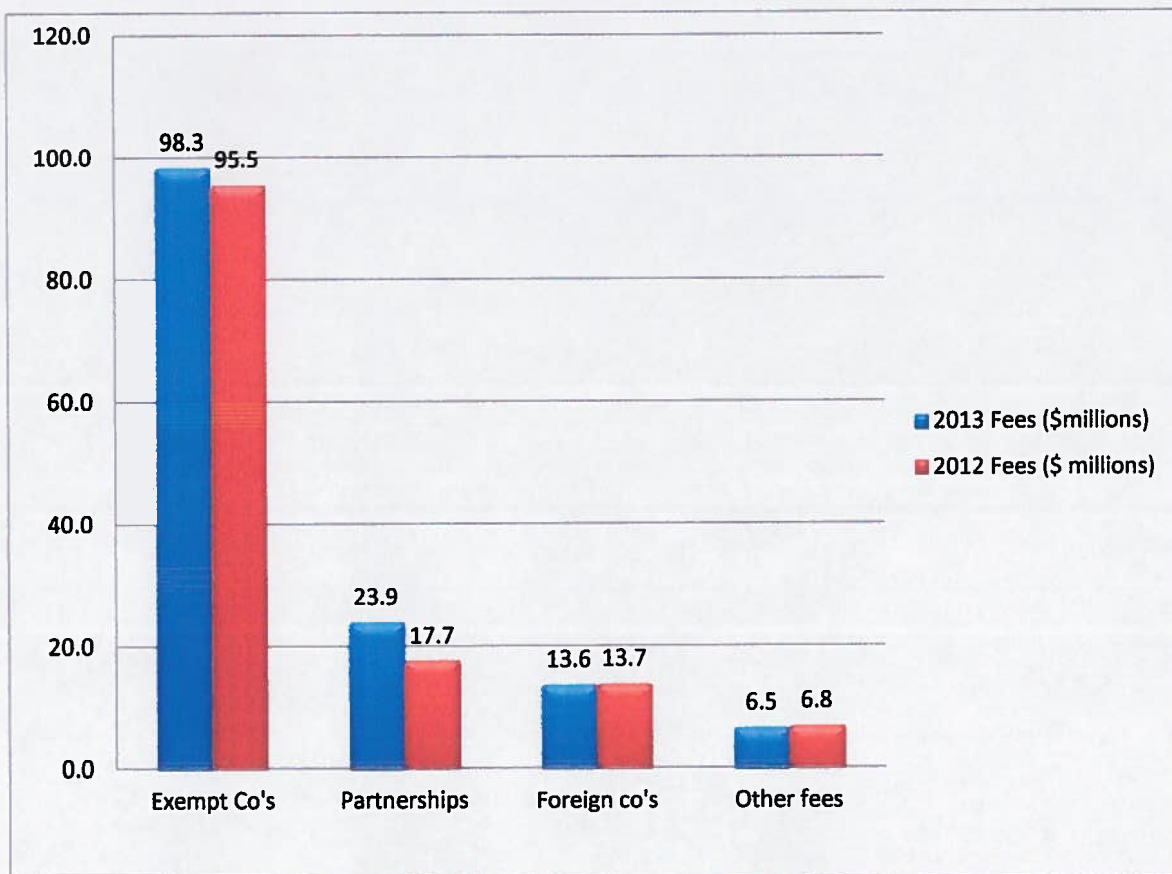
- Company Registration - registration and control of companies governed by the Companies Law (2012 Revision). These are administered via the Cayman Islands On-line Registry Information Service (CORIS) which allows users to remotely access information regarding those companies they are charged to administer.
- Partnership Fees - registration of limited and exempted limited partnerships and the maintenance of records for each partnership.
- Trust Fees - registration of ordinary, exempted and special trusts alternative regime (STAR) trusts.
- Patents and Trademarks Fees - governed by the Patents and Trademarks Law. Rather than a registry of original registration, the Registry serves to extend patent and trademark rights that have been registered in other jurisdictions.
- Public Records Fees - searches of public records database such as wills, promissory notes, deed polls, debentures, affidavits and bill of sales.
- Birth, Death and Marriage Fees - recording of birth, death or marriage records that occurred in the Cayman Islands. No fee is attached to the registration of births, deaths and marriages however revenue is gained from the issuance of certificates.



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Revenue Profile

Revenue for the 14 months from January 2012 to February 2013 was \$ 142.3 million (prior period (PP) \$133.7 m). The largest source of revenue was exempt company annual and registration fees which accounted for \$98.3 million (PP \$ \$95.5 million) representing 69% (PP 71%) of total revenue, followed by partnership fees accounting for \$23.9 million (PP \$17.7 million) and foreign company fees accounting for \$13.6 million (PP \$13.7 million). Other fees includes fees from trusts, patents, and resident companies.



Operational System

To record revenue on a daily basis, the Registry uses the General Registry Support System (GRSS). GRSS is managed and supported by the Computer Services Department. At the end of each business day, transactions are batched and recorded in IRIS for financial reporting purposes. GRSS system is also the main system used for processing personal and company registrations and related transactions.



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### **Audit Objectives and Scope**

The Internal Audit Unit evaluated whether the Registry's management systems and controls in place over the revenue processes were adequate to achieve the intended objectives. The specific objectives of the audit were to determine whether:

- management systems were in compliance with laws, regulations, documented policies and procedures and generally accepted accounting principles;
- the revenue systems in place accurately assess, collect, deposit and record all revenue;
- there was adequate segregation of duties over the Registry's systems for revenue collection;
- monies collected were adequately safeguarded until deposited; and,
- appropriate general and application controls were in existence for all non-IRIS computerized systems.

The audit covered transactions that were processed from January 2012 to February 2013.

### **Audit Methodology**

The audit methodology involved understanding and documenting the processes under review and the internal controls governing those processes, performing risk assessment to identify and evaluate potential risks and key controls and developing an audit programme to test whether those controls were operating as intended.

Only findings of internal control weaknesses that could affect the adequacy and effectiveness of management systems are reported; however, the audit conclusion is based on our overall assessment of the control procedures against the audit objectives.

### **Audit Criteria**

The Registry's revenue controls were measured against the requirements of the Public Management and Finance Law, Financial Regulations, the Companies Law, other relevant laws central to the Registry's operations as well as generally accepted accounting and business practices.

In addition to evaluating the internal control activities, other fundamentals of an effective internal control framework were also assessed as defined by the COSO Model which identifies other elements of good internal controls as:

- The **control environment** which is the foundation for the effectiveness of all the other internal control components and reflects management's commitment and attitude towards the control structure.

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- Ongoing **risk assessment** which should be performed by management and involves identifying and analyzing the significance and likelihood of potential risks that may adversely affect the entity's ability to meet its objectives.
- **Information and communication** systems ensure that pertinent information is identified, captured and communicated in a form and within a timeframe that enable the achievement of objectives.
- Ongoing **monitoring and review** of activities and processes is necessary in order to assess their performance over time and against pre-determined requirements.



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### III. AUDIT REPORT

#### 1. Lack of Reconciliations between IRIS and GRSS

Section 14 of the Financial Regulations (2010 Revision) (the "regulations") states that "unless exempted in writing by the Financial Secretary, prescribed entities shall use the IRIS to record their entity financial activity and the executive financial activity for which they are responsible." In addition, Section 16 states that "each prescribed entity is responsible for entering all data into the IRIS, for making all entries and adjustments to all ledgers relating to its entity or any executive reporting entity for which it is responsible, and for ensuring that the information within those ledgers is accurate, complete and up to date."

Financial management best practice requires that reconciliations be performed between IRIS and GRSS to ensure that the ledgers are accurate, complete and up to date.

During our audit we noted that the Registry utilized GRSS as its primary revenue recording system. Reports generated from GRSS are then used to manually update IRIS. However, during the performance of our walkthrough tests we noted that there was no evidence of periodic reconciliations being performed.

Based on discussions with the Deputy Registrar General in charge of Finance, the lack of reconciliations occurred mainly because the Registry had instituted input controls as a means of mitigating this. The person raising batches in IRIS is separate and subject to review by an independent person in a supervisory position. The transaction originator and transaction approver have different system access rights tailored to their respective functions. Once the transaction originator enters data into the system the approver reviews it online against the input batches from GRSS. If no discrepancies are noted, the reviewer will post the journal to the system ledgers. The Registry utilizes ADI, an oracle application that allows journal batches to be uploaded into IRIS.

However, this measure would only detect any errors or omissions on the batches for posting. The measure was inadequate in detecting any mis-postings to the revenue and receivable accounts.

Although our tests revealed no reconciling items, the lack of reconciliations between IRIS and GRSS could lead to undetected errors and mis-postings which could eventually lead to misstatements of the financial records in IRIS. These controls which involve supervisory review and approval prior to input will detect any variances between IRIS and GRSS at the point of entry into IRIS. However, if adjustments are made to the IRIS system and not to GRSS system and vice versa, these would not be detected unless periodic reconciliations took place with both systems.

As a long term solution, the Registrar should ensure that GRSS and IRIS are interfaced to eliminate inherent weaknesses associated with manual data entry.

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### Recommendation

The Registrar should ensure that periodic reconciliations between IRIS and GRSS are performed to ensure the accuracy of financial records. Any reconciling items should be identified, reviewed and resolved.

As a long term solution, the Registrar should ensure that GRSS and IRIS are interfaced to eliminate inherent weaknesses associated with manual data entry.

### Management's Response

*The Registry is aware of the additional benefits that may be derived from completing the revenue reconciliations and in the past this was done but was discontinued due to resource constraints as the Deputy Registrar was also performing the role of the Financial & Administration Manager for over 2 years, sometimes without any other accounting support. The input controls were escalated to reduce the risk of errors. The absence of reconciling items is evidence that the controls are working however the Registry agrees to resume revenue reconciliation.*

**Implementation Date:** *Reconciliations will be resumed when the Financial Administrator is employed.*

## 2. Transaction Manually Overridden In GRSS

As defined by the COSO framework, an essential element of effective internal controls is monitoring and review of controls and processes. This process includes the monitoring and reporting of control exceptions. A key benefit of internal control monitoring is to provide assurance regarding effective and efficient operations and compliance with applicable laws and regulations.

Section 169 (1) of the Companies Law (2012 Revision) states that "every exempted company shall, in January of each year after the year of its registration, pay to the revenues of the Islands the annual fee" Further Section 169 (3) states that "An exempted company who defaults in submitting its annual return under section 168 or the fee specified in subsection (1) shall incur a penalty of -

- a. 33.33% of the annual fee specified in subsection (1) if the return is submitted or the fee and penalty are paid between the 1st April and the 30th June;
- b. 66.67% of the annual fee specified in subsection (1) if the return is submitted or the fee and penalty are paid between the 1st July and the 30th September; and
- c. 100% of the annual fee specified in subsection (1) if the return is submitted or the fee and penalty are paid between the 1st October and the 31st December."

During the execution of the audit test to re-compute penalties charged for late payment of annual fees, a sample of 10 transactions was tested and compared with corresponding penalties computed by GRSS. We

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identified a transaction for one company where the annual fee was applied to the account on the 21st June 2012. As a consequence, a penalty fee of 33.33% became due if paid by 30th June 2012. However as at 15th May 2013 the penalty hadn't been paid and since the penalty remained unpaid beyond 31st December, 2012, Section 169 (3) c of the Companies Law requires that the company pay a penalty of 100% of the annual fee.

Further review of the transaction revealed that although the penalty fee was not paid on time, the GRSS system reflected that 33.33% was due instead of 100%. Based on discussions with the Deputy Registrar in charge of Finance and Administration; it was stated that this was most likely caused by someone manually overriding the penalty calculated by the system.

Computer Services Department ran an audit trail in the GRSS system and it was subsequently determined that the penalty as shown was overridden by the Senior Customer Liaison Officer who is authorized to perform transaction overriding if necessary.

Overriding annual fees and penalties is restricted to officers at the level of Customer Liaison Officer and above. However, we were unable to determine the reason why this overriding was necessary. Further, there was no evidence that criteria exists to establish when overriding is to be applied.

Transaction override is a common method of perpetrating a fraud. Where effective monitoring and reporting of overridden transactions are not conducted, it is likely that errors or fraudulent transactions may not be detected in a timely manner.

### **Recommendation**

The Registrar should establish criteria to determine under what circumstances manual overriding should be utilized. In cases where manual overriding is necessary, this should be documented and subjected to review by a person in a supervisory position to minimize occurrences of errors or fraud.

### **Management's Response**

*A system will be designed and implemented that will have the following features:*

- 1. reason for override*
- 2. Upload of supporting documentation*
- 3. Override report – to be reviewed and sample tested by the new Financial Administrator.*

**Implementation Date:** *July 2014*

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### **3. Changes in Share Capital not updated in GRSS**

Section 29 of the Financial Regulations states that "A chief officer of a prescribed entity shall ensure that an appropriate system of internal controls operates within the entity and that that system is adequate to safeguard the entity or executive resources for which the prescribed entity is responsible."

During our audit we randomly sampled 27 transactions for which the relevant companies had filed special resolutions to alter or add to their articles. Of the 27 sampled transactions we noted that:

- i. A resolution was filed dated 22 January, 2013 to increase share capital from GBP 100,000 to GBP 110,000. This change in share capital was not updated in GRSS.
- ii. A resolution was filed dated 8th November, 2012 changing the number of shares to 5,000. During our review, we noted that GRSS only had 1,000 shares.
- iii. A resolution dated 4th December, 2012, was filed to change the number of shares to 900,000,000 (nine hundred million shares). During our review, we noted that GRSS had 9,000,000,000 (nine billion shares).

Based on discussions with the Deputy Registrar in charge of Finance and Administration, it was noted that this was most likely caused by human error given the large quantity of documents processed on a regular basis coupled with the limited number of staff performing the task. The Officer also stated that the Registry was in the process of instituting a filing process that would allow the clients to enter information and upload the associated resolutions online. Registry staff would then review the information entered by the client against the resolutions uploaded and approve accordingly. Additionally, the Registry was in the process of recruiting a Financial Administrator who will have the responsibility of ensuring the correctness of those transactions. It was also noted that the number of shares as input into GRSS is not used to compute the annual fee, which is determined by the value of the share capital, and as such was not a revenue driver.

Although the number of shares as input into GRSS is not a revenue driver, any errors or misstatements on this may alter the capital structure and shareholding of a company and reflect a poor public image for the government. Additionally, not updating the share value data in GRSS can lead to inaccurate computation of fines and fees. It is therefore important for the Registry to accurately record the number and value of shares.

#### **Recommendation**

The Registrar should ensure that data entered into the system is subject to independent review by a Supervisor. This will help detect and remedy any errors by the encoder and will result in more accurate information in GRSS.

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### **Management's Response**

*The management is aware of the importance of having the share capital correctly reflected in GRSS consequently the changes to share capital are reviewed by an Assistant Registrar. A secondary review had been done in the past to further mitigate against the risk of mis-statement however due to resource constraints it could not be maintained. The Department is currently in the process of recruiting a Financial Administrator who will have the responsibility of ensuring the correctness of those transactions.*

**Implementation Date:** *January 2014 – Share capital testing; Online Registration launch – 26 September 2013.*

#### **4. Inadequate Filing System**

Section 44 of the Financial Regulations states that “a prescribed entity, statutory authority or government company is required to retain records pertaining to output reporting, entity financial transactions and executive financial transactions (including revenue, expenses, assets and liabilities) in such a manner that such records can be readily produced for operational and audit purposes.”

Further, financial management best practice requires that a system of filing should at a minimum:

- Adequately safeguard the file contents;
- Have a checklist of documents contained in the file to facilitate efficient retrieval of documents;
- Have a standardized filing format to ensure that commonly occurring documents of a similar nature are consistently filed under a similarly indexed section in the file.

During our audit we noted that the filing system for the Registry facilitated efficient location and retrieval of files. We however noted that sensitive documents were not secured with a fastener and were inserted as loose papers in the file folders. There was also no consistent or particular order for filing documents in the files and each folder did not contain a checklist of documents enclosed therein.

Not having a specific order, checklist or index for filing documents makes retrieval and tracing of documents very inefficient and time consuming for already limited staff resources. In addition, filing documents unsecured could lead to their loss which could lead to a negative public image for the government. Without knowledge of what documents are contained in a file it becomes difficult to identify when and what documents are missing.

Based on discussions with the Deputy Registrar in charge of Finance and Administration, it was noted that the Registry was in the process of implementing a virtual paperless system of filing. Additionally, the Department had made a budgetary request to recruit a record supervisor who would be tasked with implementing and monitoring the filing process. The foregoing would help address the issues noted.

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## Recommendation

The Registrar should ensure that a robust filing system is established.

## Management's Response

*The Registry is in the testing phase of online registration that adheres to financial management best practice (please see appendix 2.) However documents currently held in hard copy will not be re-filed as it would not be cost effective to do so. Initially only the clients that are CORIS subscribers will be having their documents stored online however in the future (a date to be determined) the Registry will be converting all other submissions to electronic form thus ending the creation of hard copy files.*

*The Registry also hopes, after the department staff and clients have become fully conversant with the online registry system, to embark on a project to scan and upload existing files.*

*The implementation is being done in phases and the first segment will be Companies. Other registers will be added in the future.*

**Implementation Date:** 26 September 2013.

## 5. Website not Up to Date

An organization's website is a virtual marketing and informative tool which provides ubiquitous access and usage to users or other persons who may have an interest in the organization. Websites are often the first impression an organization makes on prospective clients. It is therefore important for the Registry to keep its website as current and informative as possible.

During our review of the Registry's website we noted that it was well designed and equipped with useful information. We however observed that some of the information was not current or accurate. Examples are:

- The "about us" and "contact us" page states the address of the Registry as the Citrus Grove Building. This is inaccurate as the Registry is currently situated on the ground floor of the Government Administration Building.
- The latest available information for "active companies on the register" chart is from 2010.

Please see **Appendix 1** for the screen shots.

Based on discussions with the Deputy Registrar in charge of Information Technology, we gathered that the Registry does not currently have adequate resources to manage the website. A decision had been

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taken at a management meeting by the Chief Officer to have the Marketing and Communications Unit (MCU) take up the responsibility for maintaining the website.

Not having an up to date website could lead to loss of business for the Cayman Islands Registry. In the competitive world of offshore jurisdictions, it is essential that the Registry employ technology effectively and adopt emerging trends to give it a competitive edge in marketing and informing stakeholders. An un-updated website could give prospective clients a wrong first impression.

**Recommendation**

The Registrar should ensure that the Registry website is not only current but also contains up to date and relevant information to its target market.

**Management's Response**

*Agreed. The Registry will collaborate with the Marketing and Communications Unit (MCU)*

**Implementation Date:** *March 31, 2013*