



**CIVIL AVIATION AUTHORITY OF THE CAYMAN
ISLANDS**

PAYROLL & EXPENDITURE AUDIT

Audit Report

October 2015

**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 2015-16 Audit Plan, we recently concluded a payroll and expenditure audit of the Civil Aviation Authority of the Cayman Islands ("CAA" or "the Authority").

Audit Conclusion

Based on the results of the audit procedures performed at the Civil Aviation Authority of the Cayman Islands, we are pleased to report that there were no findings of deficiencies requiring corrective action noted. The Internal Audit Unit can therefore provide reasonable assurance that the payroll and expenditure management systems within the Authority are adequate to support the achievement of its objectives.

Deloris E. Gordon
Director, Internal Audit Unit

October 23, 2015



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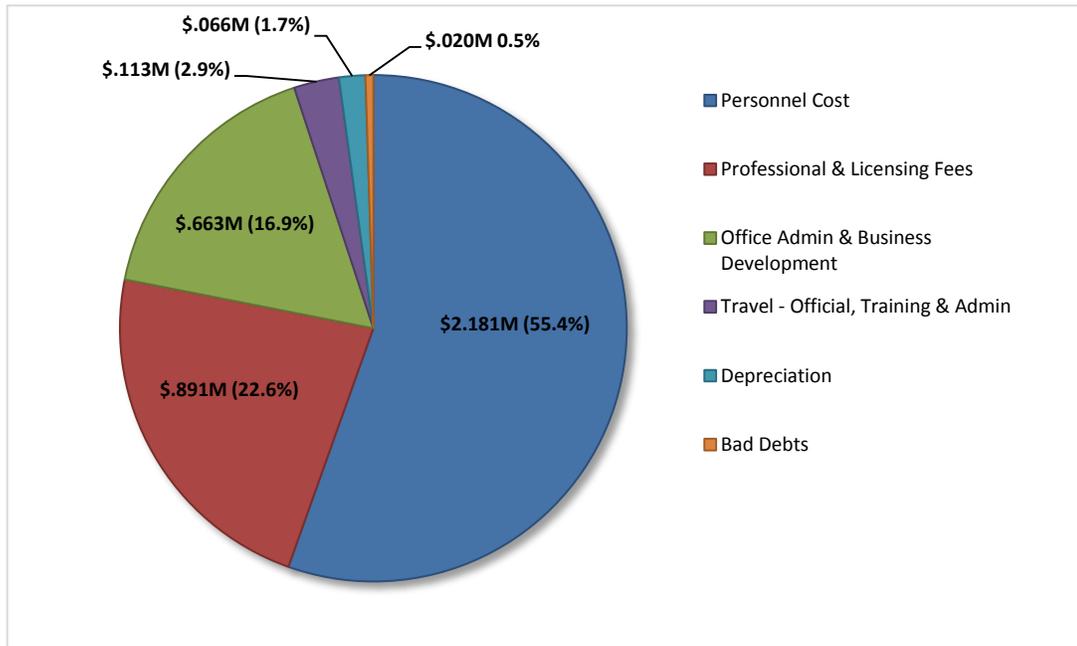
II. INTRODUCTION

Background

The CAA was established in accordance with the Civil Aviation Authority Law of the Cayman Islands (2005 Revision). The Authority is charged with the responsibility for regulatory oversight and economic regulation of the aviation industry within the Cayman Islands. Included in their functions is the operation and maintenance of the Cayman Islands Aircraft Registry, where both corporate and private aircraft can be registered. Revenues generated from said activities allow the CAA to be sufficiently self-funded to the extent that it can contribute to the general coffers of the Cayman Islands Government.

The CAA's only office is located in George Town, Grand Cayman, where a staff complement of 21 carry out the functions of the Authority. In addition to their fulltime staff, the CAA engages the services of overseas contractors to conduct surveys on all aircraft on the Cayman Islands Register. Expenses related to those surveys are recovered through billings to the concerned clients and do not constitute actual costs to the Authority.

To carry out its activities in FY2014/15, the Authority allocated a budget of \$4,235,882 for its operating expenses. As of June 30, 2015, actual operating expenses amounted to \$3,934,770 broken down as follows:



As shown above, the CAA's largest expense during the period was personnel costs, accounting for 55.4% of its expenditure budget. Following is a breakdown of costs:



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Type of Expense	Amount	Percentage
Salaries/Performance Incentives	\$ 1,688,356	77%
Health Insurance & Medical Expenses	\$ 271,830	13%
Pensions	\$ 183,809	8%
Employee Training	\$ 25,111	1%
Relocation Expense*	\$ 12,533	1%
Total:	\$ 2,181,639	100%

* Expenses related to employee relocation to the Cayman Islands (e.g. temporary accommodation, shipping, airfare etc.)

Accounting and Payroll Systems/Software

The CAA utilizes Quickbooks to process and record their expenditure and payroll transactions. Payroll information is first prepared manually in Excel format and then submitted for processing and payment to the Finance and Compliance Division.

Audit Objectives and Scope

During this audit, we examined the payroll and expenditure management systems at the Civil Aviation Authority of the Cayman Islands. The specific objectives of the audit were to determine whether:

- The payroll and expenditure management systems were adequate to ensure the accuracy and timeliness of transactions;
- Adequate controls were in place to ensure that expenditure and payroll transactions were valid and authorized;
- Relevant contracts/agreements were in place to support employment and general expenditures;
- Goods and services that were ordered and paid for were received during the financial year; and
- Transactions were in compliance with Laws, Regulations, policies and procedures, and best practices.

The audit examined samples which were selected from an overall population of payroll and expense transactions that occurred between July 1, 2014 and June 30, 2015.

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 program to test whether those controls were operating as intended.



The audit conclusion is based on our overall assessment of the control procedures against the audit objectives.

Audit Criteria

The management systems and internal controls in place were measured against the following:

- Public Management and Finance Law;
- Financial Regulations;
- Civil Aviation Authority Law;
- Health Insurance Law;
- National Pensions Law; and
- Generally accepted accounting principles 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 control 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;
- 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; and,
- Ongoing **monitoring and review** of activities and processes is necessary in order to assess their performance over time and against pre-determined requirements.