



CAYMAN ISLANDS DEVELOPMENT BANK

Report to those charged with governance on the 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 December 31, 2023 financial statements of the Cayman Islands Development Bank (the “Bank”). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Bank in sufficient time to enable appropriate action. The matters we are required to communicate under ISAs include:
 - auditor’s 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 financial statements for 2023 that we consider are worthy of drawing to 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.

AUDITOR’S 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 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 have read the other information contained in the Bank'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 Bank. 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 signed by the Bank on September 18, 2023, 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 have issued an unqualified auditor's report with emphasis of matters on the financial statements. Note 6 in the financial statements outlines that impaired loans as at December 31, 2023 amounted to \$5,528,565 (2022: \$5,916,040). This represents 20% (2022: 26%) of the overall loan portfolio excluding allowances for credit losses. According to note 10 of the financial statements the Bank received \$4,500,000 in contributed capital from the Cayman Islands Government during the year ended December 31, 2023. I also draw your attention to Note 13 which indicates that the Bank received payments amounting to \$526,317 for providing services to the Cayman Islands Government. The ability of the Bank to meet its mandate and capacity to sustain its operational expenditures are significantly reliant on continued Government support from the proceeds of capital injection and services provided to Government.
9. A summary of client adjustments made to the financial statements is attached in Appendix 1. There were no uncorrected misstatements arising from the audit.
10. We have obtained written representations from management in respect of our financial statement audit.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Bank's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Bank 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 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 Bank's financial statements.
12. Details of any significant findings from the audit are included in Appendix 2 along with management's response.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES:

13. Management was required to make significant judgments and estimates in respect of allowance for credit losses and depreciation.

GOING CONCERN DOUBTS:

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 Bank's ability to continue as a going concern.

MATERIAL WEAKNESSES IN INTERNAL CONTROL:

15. Significant deficiencies are noted below in Appendix 2. Other control deficiencies relating to IT are reported separately to management in the ISA 265 Report. The significant matters include:
 - i. High delinquency rate
 - ii. Inadequate collateral assets monitoring
 - iii. Loan portfolio mix not at recommended level
 - iv. Insufficient strategic direction and oversight of IT

FRAUD OR ILLEGAL ACTS:

16. Applicable auditing standards recognize that the primary responsibility for the prevention and detection of fraud and compliance with applicable Acts 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.
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.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT:

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

DISAGREEMENTS WITH MANAGEMENT:

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

ANY OTHER SIGNIFICANT MATTERS

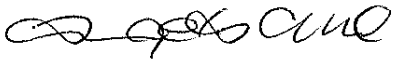
21. Significant reliance on government capital injection and outputs sold.

The ability of the Bank to meet its mandate and capacity to sustain its operational expenditures are significantly reliant on continued Government support from the proceeds of capital injection and services provided to Government. Continued funding is also necessary for the Bank to carry out its principal function to mobilize, promote, facilitate, and provide finance for the expansion and strengthening of the economic development of the Islands.

ACKNOWLEDGEMENTS

22. We thank the management and staff of the Bank for their cooperation and assistance during the audit of this year's financial statements.

Yours sincerely,



Angela Cullen, CPFA
Acting Auditor General
Cayman Islands

14 June 2024

APPENDIX 1 – SUMMARY OF CLIENT ADJUSTMENTS

	Account #	Debit (\$)	Credit (\$)
POST RETIREMENT HEALTHCARE - REMEASUREMENTS	9301906	14,000.00	
POST RETIREMENT HEALTHCARE LIABILITY	9101107		14,000.00
To accrue Post-Retirement Healthcare re-measurement cost - total updated liability valuation as of January 22, 2024 per Mercer \$1,034,000 compared to total in general ledger as of December 31, 2023, \$1,020,000, difference of \$14,000. Impact in 2023 on GL AC# 9301906 POST RETIREMENT HEALTHCARE - REMEASUREMENTS			
PROFESSIONAL FEES	9303502	12,600.00	
PAYABLE OTHER	9101502		12,600.00
To accrue Ogier Inv#13000084 - Internal Audit Services - 2023 Q4 Corporate Governance Audit, USD\$15,000 KYD\$12,600 (Nov.1.23 to Nov.29.23). Impact in 2023 on GL AC# 9303502 PROFESSIONAL FEES.			
RETAINED EARNINGS	9101908		869.46
EXPECTED CREDIT LOSS ALLOWANCE - SHORT-TERM FIXED DEPOSITS	9000650	869.46	
GL A/C #9304010-CHANGE IN EXPECTED CREDIT LOSS ALLOWANCE-SHORT-TERM FIXED DEPOSITS-RECORD CHANGE IN DEC. 2023 FIXED DEPOSIT ECL (\$6.1M).			
RETAINED EARNINGS	9101908	42,957.67	
EXPECTED CREDIT LOSS ALLOWANCE - LOANS TO CUSTOMERS	9101304		42,957.67
GL AC# 9304007 - CHANGE IN EXPECTED CREDIT LOSS ALLOWANCE - LOANS TO CUSTOMERS - RECORD CHANGE IN DEC 2023 ECL (\$367,871.41 less unadjusted balance of \$324,913.74)			
	TOTAL	70,427.13	70,427.13

APPENDIX 2 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date																		
Reiteration from the Prior Year																					
<p>i. High Delinquency Rate (Recurring)</p> <p>The CIDB delinquency rate was reduced by 6% over the prior year yet remains high. Delinquent loans stood at \$5,528,566 (2022: \$5,916,040) as of December 31, 2023, representing 20% (2022: 26%) of the entire loan portfolio:</p> <table border="1" data-bbox="293 708 911 1007"> <thead> <tr> <th>Loan Category</th> <th>2023</th> <th>2022</th> </tr> </thead> <tbody> <tr> <td>Performing Loans (a)</td> <td>21,933,109</td> <td>16,899,998</td> </tr> <tr> <td>Non-Performing Loans (b)</td> <td>5,528,566</td> <td>5,916,040</td> </tr> <tr> <td>Gross Total Loans (c)</td> <td>27,461,675</td> <td>22,816,038</td> </tr> <tr> <td>Performing Loans % (a/c)</td> <td>80%</td> <td>74%</td> </tr> <tr> <td>Non-Performing Loans % (b/c)</td> <td>20%</td> <td>26%</td> </tr> </tbody> </table>	Loan Category	2023	2022	Performing Loans (a)	21,933,109	16,899,998	Non-Performing Loans (b)	5,528,566	5,916,040	Gross Total Loans (c)	27,461,675	22,816,038	Performing Loans % (a/c)	80%	74%	Non-Performing Loans % (b/c)	20%	26%	<p>Risk/Implication</p> <p>This high delinquency has marginalized the bank’s ability to carry out its primary function to mobilize, promote, facilitate, and provide finance for the expansion and strengthening of the islands' economic development.</p> <p>The inability to collect debt from customers reduces the banks’ ability to lend to prospective borrowers.</p> <p>In addition, the Bank's inability to carry out its mandate by granting new loans (due to a lack of funds) calls the rationale for its existence into question.</p> <p>Recommendation</p> <p>We recommend that the Bank formally analyze what collection activities are effective in contacting customers to maximize the efficiency of their collection activities. Determining and utilizing the best communication channels will increase the likelihood that customers will respond and maximize the possibility of collecting the debt.</p>	<p><i>The Risk department has a monthly meeting implemented to organize our monthly efforts to decide which clients on the delinquency Report are at a stage that our efforts will be maximized by continuing collection efforts for that month by way of sending to legal, restructure, contacting customer or forbearance agreements.</i></p>	<p><i>Ongoing meetings using this method were implemented August 2022.</i></p>
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<p>ii. Inadequate Collateral Assets Monitoring (Recurring)</p> <p>The valuation ageing analysis below shows an improvement over the prior year. Most loans with charged properties have current property valuations/appraisals prepared by accredited Royal Institution of Chartered Surveyors (RICS) Registered Valuers contracted by the Bank. For example, 55% had valuations that were 1 to 2 years old (2022: 31%). However, the Alpha Banking System is not being updated consistently on a timely basis with the new market values.</p> <table border="1" data-bbox="293 890 913 1203"> <thead> <tr> <th>Valuation Aging</th> <th>Security (\$)</th> <th>Loan Bal. (\$)</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Less than one year</td> <td>13,468,000</td> <td>4,437,771</td> <td>16%</td> </tr> <tr> <td>None</td> <td>563,541</td> <td>273,382</td> <td>1%</td> </tr> <tr> <td>One to two years</td> <td>29,703,101</td> <td>15,085,344</td> <td>55%</td> </tr> <tr> <td>Over five years</td> <td>7,680,000</td> <td>806,250</td> <td>3%</td> </tr> <tr> <td>Three to five years</td> <td>18,034,698</td> <td>6,473,754</td> <td>24%</td> </tr> <tr> <td>Unsecured</td> <td>-</td> <td>385,175</td> <td>1%</td> </tr> <tr> <td>Grand Total</td> <td>69,449,340</td> <td>27,461,676</td> <td>100%</td> </tr> </tbody> </table>	Valuation Aging	Security (\$)	Loan Bal. (\$)	%	Less than one year	13,468,000	4,437,771	16%	None	563,541	273,382	1%	One to two years	29,703,101	15,085,344	55%	Over five years	7,680,000	806,250	3%	Three to five years	18,034,698	6,473,754	24%	Unsecured	-	385,175	1%	Grand Total	69,449,340	27,461,676	100%	<p>Risk/Implication</p> <p>The reduction of collateral value below the carrying amount of the loan increases the likelihood of further write-offs should a customer default on a loan.</p> <p>Additionally, as the security value is used to calculate the Expected Credit Loss (ECL) and, hence, the Loans to Customers figures, the financial statements could be materially misstated if the valuations are not current.</p> <p>Recommendation</p> <p>We recommend that the Bank continue obtaining recent valuations to support the security values used in the Expected Credit Loss (ECL) calculation for customer loans and update the Alpha Banking System on a timely basis with the new market values.</p>	<p><i>The Risk department orders valuations every three years for all non-performing loans. During the interim period that the valuations are ordered and completed could take several months to be provided entered into the Alpha Banking System. However, once the valuations are provided to the Officer in charge of the documents they are uploaded into the system as quickly as possible.</i></p>	<p><i>This process is ongoing and the Risk-officers will endeavor to uploading the documents in a timely manner once provided.</i></p>
Valuation Aging	Security (\$)	Loan Bal. (\$)	%																																
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<p>iii. Loan Portfolio Mix not at Recommended Level (Recurring)</p> <p>The loan portfolio mix for debt consolidation for the year ended 31 December 2023 was outside of the Board approved limit for 2023:</p> <table border="1" data-bbox="293 635 913 956"> <thead> <tr> <th>Loan Type</th> <th>Approved Mix for 2023</th> <th>Actual Mix for 2023</th> <th>Variance</th> </tr> </thead> <tbody> <tr> <td>Mortgage</td> <td>75%</td> <td>75%</td> <td>0%</td> </tr> <tr> <td>Debt Consolidation</td> <td>0%</td> <td>8%</td> <td>-8%</td> </tr> <tr> <td>Business</td> <td>17%</td> <td>13%</td> <td>4%</td> </tr> <tr> <td>Student</td> <td>8%</td> <td>5%</td> <td>3%</td> </tr> <tr> <td>Consumer</td> <td>0%</td> <td>0%</td> <td>0%</td> </tr> <tr> <td>Total</td> <td>100%</td> <td>100%</td> <td>0%</td> </tr> </tbody> </table>	Loan Type	Approved Mix for 2023	Actual Mix for 2023	Variance	Mortgage	75%	75%	0%	Debt Consolidation	0%	8%	-8%	Business	17%	13%	4%	Student	8%	5%	3%	Consumer	0%	0%	0%	Total	100%	100%	0%	<p>Risk/Implication</p> <p>The determination of portfolio mix is based on the strategic direction the Board intends to pursue. Consequently, a deviation from the portfolio mix would be a change in strategy. Poor loan portfolio mix management can lead to loan default and adversely affect the Bank’s performance.</p> <p>Recommendation</p> <p>We recommended that the Board reviews the portfolio mix and align it to the revised strategy then advise the Cayman Islands Monetary Authority of the change.</p>	<p><i>CIMA is aware of the offside condition. Debt consolidation loans were discontinued due to high risk nature of the loans and probability of defaults.</i></p>	<p><i>This condition will remain offside until this category of loans is fully repaid.</i></p>
Loan Type	Approved Mix for 2023	Actual Mix for 2023	Variance																												
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Total	100%	100%	0%																												

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
Reiteration from the Prior Year			
<p>iv. Insufficient strategic direction and oversight of IT (Recurring)</p> <p>The Bank has adopted a corporate strategy that mentions the value of technology in moving the Bank forward; however, it does not provide specific IT priorities sufficient to guide the alignment of IT with the business priorities.</p> <p>Also, the Bank has only the Senior IT manager within the internal IT function supported by outsourced services. The IT Senior Manager directly reports to the General Manager. The structure, however, does not address the segregation of duties and operational continuity.</p>	<p>Risk/Implication</p> <p>This presents a significant business continuity risk. An adverse event involving any employee who has sole access and knowledge to a particular function within an organization could cause significant business disruptions.</p> <p>Recommendation</p> <p>Management should outline specific IT priorities to ensure business-IT alignment. Furthermore, management should establish monitoring controls to address the risk of lack of segregation within the organization and formalize these detective controls.</p>	<p><i>The corporate strategy will be adjusted to clearly specify IT priorities.</i></p> <p><i>Segregation of duties has been addressed by contracting a local MSP (IT Outsource) as front line and backend support. The contractor is also tasked with Business Continuity, Disaster Recovery, regulatory compliance, and incident monitoring\response duties. The contractor is directly managed by the Senior Manager of Administration, Operations, and IT. Reports are currently made to the GM, the Board of Directors and Sub-committees on a regular basis.</i></p>	<p>Q3 2024</p> <p>Q2 2024</p>