



## **CAYMAN ISLANDS DEVELOPMENT BANK**

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**Report to those charged with governance on the 2024 audit**

**June 2025**

*To help the public service  
spend wisely*

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# REPORT TO THOSE CHARGED WITH GOVERNANCE

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## INTRODUCTION

1. We have completed our audit of the December 31, 2024 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 2024 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](http://www.auditorgeneral.gov.ky).

## AUDITOR’S RESPONSIBILITIES IN RELATION TO THE AUDIT

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### 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.

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**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.

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**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 13, 2024, 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, 2024, amounted to \$3,547,996 (2023: \$5,528,565). This represents 13% (2023: 20%) of the overall loan portfolio excluding allowances for credit losses. According to note 10 of the financial statements, the Bank received \$3,000,000 in contributed capital from the Cayman Islands Government during the year ended December 31, 2024. We also draw your attention to Note 13, which indicates that the Bank received payments amounting to \$605,267 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 the Government. Continued support from the Government is 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. Additionally, the support would include obtaining the necessary waivers highlighted under note 13 (b).
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**

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### **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 1 along with management's response.

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### **MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES:**

13. Management has made significant judgments and estimates in respect of allowance for credit losses, post-retirement health benefits and depreciation.

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### **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.

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### **MATERIAL WEAKNESSES IN INTERNAL CONTROL:**

15. Significant deficiencies identified during our audit are noted below in Appendix 1, along with management's response. Other significant control deficiencies relating to IT are reported separately to management in the ISA 265 Report.

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**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.

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**SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT:**

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

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**DISAGREEMENTS WITH MANAGEMENT:**

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

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**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,



Winston Sobers, FCCA, CFE  
Acting Auditor General

June 5, 2025  
Cayman Islands



## APPENDIX 1 – SUMMARY OF CLIENT ADJUSTMENTS

Description	Account #	Debit (\$)	Credit (\$)
Expected credit loss allowance - loans to customers	9101304	15,765.00	
Change in expected credit loss allowance - loans	9304007		15,765.00
To record adjustments in expected credit loss in loans following the final assessment.			
Change in expected credit loss allowance - short-term	9304010	1,664.52	
Expected credit loss allowance - short-term fixed	9000650		1,664.52
To record adjustments in expected credit loss in short-term fixed deposits following the final assessment.			
	<b>TOTAL</b>	<b>17,429.52</b>	<b>17,429.52</b>

## APPENDIX 2 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p><b>1. Outdated Loan Internal Credit Reviews</b></p> <p>A review of the Bank's loan portfolio revealed that internal credit assessments for 30 loan accounts were not up to date. Section 8.1.18 of the Bank's lending policy and procedures manual stipulates that all credits must be rated both at the time of application and during each interim or annual review. However, compliance with this requirement has not been consistently maintained. Notably, 15 of the 30 overdue reviews were for accounts categorised as delinquent or non-accrual, which require increased oversight due to their higher risk profile.</p> <p>Based on our evaluation, the ECL assessment for the year remained unchanged, as the loan accounts were appropriately classified within their respective stages. However, looking ahead, there is a potential risk that future assessments may be materially affected if qualitative factors such as borrower financial health, macroeconomic conditions, and industry-specific risks are not adequately captured and integrated into the credit risk modeling process.</p>	<p><b>Risk/Implication</b></p> <p>Failure to conduct timely credit reviews undermines the Bank's ability to assess and mitigate credit risk effectively. This oversight could result in undetected deterioration in asset quality, potentially leading to increased credit losses. Additionally, insufficient monitoring of delinquent and non-accrual accounts raises the risk of default, which can adversely affect the bank's financial stability and regulatory standing. Furthermore, non-compliance with internal policies may attract scrutiny from regulators and other stakeholders, potentially leading to damage to the Bank's reputation or enforcement actions.</p> <p><b>Recommendation</b></p> <p>In the absence of an automated system to flag upcoming review deadlines and provide alerts for overdue assessments, the Bank should request that its assigned personnel ensure all manual credit reviews are completed as required and system records are updated promptly.</p>	<p><i>All credit reviews are now current. The outstanding reviews on December 31, 2024, were completed in January 2025. An assigned member of the Risk Team circulates an email reminder every month to the Credit and Risk Teams to perform the necessary reviews.</i></p>	<p><i>January 2025</i></p>

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p><b>2. Matured Loans within the Loan Portfolio</b></p> <p>The Bank's loan portfolio included 24 matured loans with material balances in aggregate. Notably, three of these loans reached maturity as far back as 2018. According to sound lending practices, loans that retain a balance at maturity should be subject to immediate corrective action, either through restructuring, foreclosure, or write-off, depending on the borrower's financial standing and repayment capacity. The prolonged status of these matured loans indicates gaps in loan management and recovery processes, potentially undermining the Bank's ability to mitigate credit risk effectively.</p>	<p><b>Risk/Implication</b></p> <p>Failure to take timely corrective action on matured loans heightens the risk of default, leading to potential financial losses for the Bank. Retaining non-performing matured loans impacts the Bank's ability to optimise capital allocation, reducing opportunities for reinvestment and profitable lending activities.</p> <p><b>Recommendation</b></p> <p>Perform a review of the 24 matured loans, prioritizing the three oldest accounts for urgent resolution. Additionally, implement stricter monitoring controls to ensure timely intervention when loans approach maturity.</p>	<p><i>The corrective actions on matured loans are applied on a case-by-case basis with judicial foreclosure pursued as the last resort. In some cases, the Bank may reach an agreement in which the borrower agrees to take steps in return for the Bank delaying legal action to collect the loan. In other cases, the loan may be restructured in accordance with the Bank's underwriting standards. This agreement is usually accompanied by changes to the terms of the loan to reduce the financial burden on the borrower through extending the loan term and adjusting the payment arrangements. The Credit &amp; Risk Teams will continue to review and monitor the performance of these loans.</i></p>	<p>Ongoing</p>
<p><b>3. Discrepancies in Loan Days in Arrears</b></p> <p>An evaluation of the days in arrears reported in the Bank's Loan Portfolio revealed inconsistencies with the days in arrears recorded in the Loan Delinquency report extracted</p>	<p><b>Risk/Implication</b></p> <p>Misalignment in arrears data may result in inaccurate loan staging, which could distort the bank's credit risk assessment and provisioning</p>	<p><i>In March 2025, a software patch was successfully implemented to address the root cause of the inconsistency. Post-implementation validation</i></p>	<p>March 2025</p>

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
from the Alpha Banking System. It was unclear why this inconsistency existed, given that the two reports are extracted from the same system. Since arrears data is a key input in the staging of loans under IFRS 9, these discrepancies directly affected the staging of three loan accounts. However, due to the presence of adequate collateral securing these loans, the staging differences did not materially impact the ECL assessment for the year under review.	<p>calculations over time. While no immediate ECL impact was observed, similar discrepancies in future assessments could lead to misstatements in financial reporting and increased provisions.</p> <p><b>Recommendation</b></p> <p>Conduct a review of the Alpha Banking System to identify the cause of the discrepancy. Additionally, ensure the days in arrears data used in ECL modeling is accurate.</p>	<i>confirmed that the days in arrears data is now consistently reflected across all relevant reports.</i>	
<p><b>4. Inadequately Constituted Board</b></p> <p>Since May 2024, the Bank's Board of Directors has been inadequately constituted due to the expiration of one Director's term in April 2024. The Director was neither re-appointed nor replaced, resulting in a vacancy that reduced the Board's total membership below the minimum threshold of 9 directors as mandated by the Development Bank Act. Pursuant to Section 4 of the Act, the Board should consist of seven Directors appointed by Cabinet in accordance with the First Schedule and two ex-officio non-voting members, for a combined total of nine Directors.</p>	<p><b>Risk/Implication</b></p> <p>The absence of a full board may hinder effective governance, decision-making, and regulatory compliance, impacting the Bank's strategic direction and oversight functions.</p> <p><b>Recommendation</b></p> <p>The Board, through the Chairman, should engage the Cabinet to bring this non-compliance to their attention and request that steps be taken as soon as possible to cure this non-compliance.</p>	<i>The adequate constitution of the Board of Directors comprising individuals with diverse backgrounds, expertise, and experience relevant to the financial industry and the Bank's operations will be discussed with the new Cabinet through the Minister for Finance &amp; Economic Development and Minister for Education &amp; Training.</i>	July 2025

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p><b>5. Inadequate Board Attendance by Ex-Officio Members</b></p> <p>A review of Board and Committee meeting minutes revealed a pattern of inconsistent attendance among ex-officio board members. These members hold crucial advisory roles as representatives of the Ministry, charged with responsibility for the Bank and the Financial Secretary. Their irregular participation has weakened the effectiveness of governance discussions and decision-making processes. Notably, one director did not attend any board meetings throughout the year, further exacerbating the issue.</p>	<p><b>Risk/Implication</b></p> <p>The absence of key ex-officio board members hinders institutional oversight, reduces engagement in critical strategic matters, and results in a loss of opportunity to align the Bank's strategy with the Government's strategic goals.</p> <p><b>Recommendation</b></p> <p>The Board, through the Chairman, should engage the Cabinet to bring this non-compliance to their attention and request that steps be taken as soon as possible to cure this non-compliance.</p>	<p><i>The ex-officio members are non-voting members of the Board. They are also the designate of the Chief Officer in the Ministry with responsibility for the Bank and the delegate of the Financial Secretary respectively. This matter will be discussed with the new Cabinet through the Minister for Finance &amp; Economic Development and Minister for Education &amp; Training.</i></p>	<p>July 2025</p>
<p><b>6. Non-Compliance with Public Authorities Act Regarding Board Member Compensation and Disclosure</b></p> <p>A review of board governance practices revealed that a Director, who was appointed Managing Director of a Statutory Authority effective August 26, 2024, continued receiving a monthly remuneration of \$1,000 for her role as a board member. This resulted in a total payment of \$4,000 for the four months from September to December 2024, despite her role as a Public Servant. This arrangement contravenes Section 14 of the Public Authorities Act (PAA), which</p>	<p><b>Risk/Implication</b></p> <ul style="list-style-type: none"> <li>Non-compliance with the Public Authorities Act may expose the Bank to legal consequences, enforcement actions, or reputational damage.</li> <li>The failure to disclose key appointments undermines transparency and increases the risk of conflicts of interest.</li> </ul> <p><b>Recommendation</b></p> <p>We recommend the following actions:</p>	<p><i>Cabinet on March 5, 2024, appointed the Director to the CIDB Board. The appointment with the Board of another Statutory Authority occurred subsequently. Notwithstanding, the Director resigned from the CIDB Board in April 2025.</i></p>	<p>April 2025</p>

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date																		
<p>establishes restrictions on board compensation for individuals holding Public Service roles.</p> <p>Furthermore, during the December 11, 2024, board meeting, the same Director was appointed as Recording Secretary, effective January 2025, at a fee of \$400 per board meeting. This contravenes Section 18(1) of the Public Authorities Act, which outlines limitations regarding additional remuneration and dual roles within public entities. These appointments were not disclosed in the Director’s 2025 Notice of Interest disclosure dated March 24, 2025.</p>	<ol style="list-style-type: none"><li>1. Immediately cease irregular payments and seek to recover payments already made.</li><li>2. As soon as possible, discuss options with the board member regarding the various roles held to cure the non-compliance with PAA.</li><li>3. Strengthen disclosure processes to ensure timely reporting of appointments and potential conflicts of interest.</li></ol>																				
<p><b>7. High Delinquency Rate (Recurring)</b></p> <p>The Bank’s delinquency rate was reduced by 7% over the prior year, yet it remains high. Delinquent loans stood at \$ 3,547,996 (2023: \$5,528,566) as of December 31, 2024, representing 13% (2023: 20%) of the entire loan portfolio:</p> <table><tr><th>Loan Category</th><th>2024</th><th>2023</th></tr><tr><td>Performing Loans (a)</td><td>23,205,167</td><td>21,933,109</td></tr><tr><td>Non-Performing Loans (b)</td><td>3,547,996</td><td>5,528,566</td></tr><tr><td><b>Gross Total Loans (c)</b></td><td><b>26,753,162</b></td><td><b>27,461,675</b></td></tr><tr><td>Performing Loans % (a/c)</td><td>87%</td><td>80%</td></tr><tr><td>Non-Performing Loans % (b/c)</td><td>13%</td><td>20%</td></tr></table>	Loan Category	2024	2023	Performing Loans (a)	23,205,167	21,933,109	Non-Performing Loans (b)	3,547,996	5,528,566	<b>Gross Total Loans (c)</b>	<b>26,753,162</b>	<b>27,461,675</b>	Performing Loans % (a/c)	87%	80%	Non-Performing Loans % (b/c)	13%	20%	<p><b>Risk/Implication</b></p> <p>This high delinquency has marginalised the bank’s ability to carry out its primary function to mobilise, 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 fulfil its mandate by granting new loans (due to a lack of funds) calls into question the rationale for its existence.</p>	<p><i>The 7% reduction over the previous year in the delinquency rate reflects a higher quality of lending and/or an improvement in the Bank's loan portfolio. A high delinquency rate is subjective and depends on various factors. These include the Bank's specific mandate, the nature of its lending portfolio, and the overall economic context. The Bank offers more competitive rates and terms which can result in higher delinquency rates compared to commercial banks.</i></p>	<p><i>Ongoing</i></p>
Loan Category	2024	2023																			
Performing Loans (a)	23,205,167	21,933,109																			
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Non-Performing Loans % (b/c)	13%	20%																			

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
	<p><b>Recommendation</b></p> <p>We recommend that the Bank continue to analyse what collection activities are effective in contacting customers to maximise the efficiency of its collection activities. Determining and utilising the best communication channels will increase the likelihood that customers will respond and maximise the possibility of collecting the debt.</p>		