Office of the Auditor General
CAYMAN ISLANDS

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June 12, 2023

The Chairman
Board of Directors
Cayman Islands Development Bank
36B Dr. Roy's Drive, George Town
P.O. Box 2576, Grand Cayman KY1-1103
Cayman Islands

Dear Mr. Scotland,

RE: 2022 AUDIT - REPORT TO THOSE CHARGED WITH GOVERNANCE

We have completed our audit of the financial statements of the Cayman Islands Development Bank for the year ended December 31, 2022. I have given an unqualified opinion with an emphasis of matter paragraph.

International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Bank. The enclosed report sets out those matters arising from the audit that we consider worthwhile to bring to your attention. These matters may be brought to the attention of Parliament in a future report.

If you have any questions on these matters please contact me at 244-3207.

Yours sincerely,

W Sobers

Winston Sobers, FCCA, CFE
Acting Auditor General

Copied to:

Ms. Tracy Ebanks – General Manager

CAYMAN ISLANDS DEVELOPMENT BANK

Report to those charged with governance on the 2022 audit

July 2023

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, 2022 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:

   - auditors 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 2022 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 (2022 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.

AUDITORS 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 August 30, 2022, 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, 2022 amounted to $5,916,040 (2021: $6,051,880). This represents 26% (2021: 34%) 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, 2022. 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. There were no corrected audit adjustments made to the financial statements. In addition, there were no uncorrected misstatement 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 1 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 1. 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. Infrequent governance meetings
    v. Board approved loans "after the fact"
    vi. Non-compliance to Public Authorities Act (2020 Revision)/Conflict of interest
    vii. 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,

Winston Sobers, FCCA, CFE
Acting Auditor General

July 12, 2023
Cayman Islands

APPENDIX 1 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

<table>
<tr><th>Observation</th><th>Risk/Implication and Recommendation</th><th>Management Response</th><th>Implementation Date</th></tr>
<tr><td>
i. High Delinquency Rate (current and prior years)
The CIDB delinquency rate reduced by 8% over prior year yet remains high. Delinquent loans stood at $5,916,040 (2021: $6,051,880) as of December 31, 2022 representing 26% (2021: 34%) of the entire loan portfolio:
<table>
<tr><th>Loan Category</th><th>2022</th><th>2021</th></tr>
<tr><td>Performing Loans (a)</td><td>$16,899,998</td><td>$11,728,860</td></tr>
<tr><td>Non-Performing Loans (b)</td><td>$5,916,040</td><td>$6,051,880</td></tr>
<tr><td>Gross Total Loans (c)</td><td>$22,816,038</td><td>$17,780,740</td></tr>
<tr><td>Performing Loans % (a/c)</td><td>74%</td><td>66%</td></tr>
<tr><td>Non-Performing Loans % (b/c)</td><td>26%</td><td>34%</td></tr>
</table>
</td><td>
Risk/Implication
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 economic development of the Islands.
Inability to collect debt from customers reduces the banks’ ability to lend to prospective borrowers.
The inability to carry out its mandate, by granting new loans (as a result of lack of funds) calls the rationale for the existence of the Bank into question.
Recommendation
We recommend that the Bank do a formal analysis of 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 respond and maximize the possibility of collecting the debt.
</td><td>
The three-person Risk Team of CIDB was reorganized in 2022 with all three taking on new duties. Taking time to train during 2022 delayed some of our responses under our mandate.
Non-performing loans reduced 8% during 2022 due to increased collection efforts.
We anticipate delinquencies will reduce in 2023 as the bank is following CIMA’s best practices with quarterly write offs. In addition, the risk team is utilizing forbearance agreements to encourage consistent payments versus foreclosure.
</td><td></td></tr>
</table>

<table>
<tr><th>Observation</th><th>Risk/Implication and Recommendation</th><th>Management Response</th><th>Implementation Date</th></tr>
<tr>
<td>
ii. Inadequate Collateral Assets Monitoring

The valuation aging analysis below shows that over 20% of the loans with charged properties do not have current property valuations/appraisals prepared by accredited Royal Institution of Chartered Surveyors (RICS) Registered Valuers contracted by the Bank. Of this 20%, 11% were over five years and 9% (2021: 18%) had no valuation dates:
<table>
<tr><th>Valuation Aging</th><th>Security Value ($)</th><th>Loan Balance ($)</th><th>%</th></tr>
<tr><td>Less than one year</td><td>10,424,710</td><td>5,946,298</td><td>26%</td></tr>
<tr><td>None</td><td>6,848,019</td><td>2,031,822</td><td>9%</td></tr>
<tr><td>One to two years</td><td>13,683,500</td><td>7,169,268</td><td>31%</td></tr>
<tr><td>Over five years</td><td>8,261,820</td><td>2,488,238</td><td>11%</td></tr>
<tr><td>Three to five years</td><td>11,825,371</td><td>4,912,682</td><td>22%</td></tr>
<tr><td>Unsecured</td><td>0</td><td>267,730</td><td>1%</td></tr>
<tr><td>Grand Total</td><td>51,043,420</td><td>22,816,038</td><td>100%</td></tr>
</table>
</td>
<td>
Risk/Implication

Reduction of collateral value below carrying amount of the loan increases the likelihood of further write offs should a customer default on a loan.

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.

Recommendation

We recommend that the Bank continue the process of obtaining recent valuations to support the security values used in the Expected Credit Loss (ECL) calculation for loans to customers and update the Alpha Banking System on a timely basis with the new market values.
</td>
<td>
The Risk Team is continuing to update valuations on file. Non-Accrual loans for the most part are receiving valuations every three years as per policy. The Credit department has not requested valuations within the five year policy unless there is a trigger event. The revised Credit Policy will address the timing of updated appraisals for performing loans. The majority of outstanding appraisals fall within the performing category.
</td>
<td></td>
</tr>
</table>

<table>
<tr><th>Observation</th><th>Risk/Implication and Recommendation</th><th>Management Response</th><th>Implementation Date</th></tr>
<tr><td>iii. Loan Portfolio Mix not at Recommended Level

The loan portfolio mix for debt consolidation for the year ended 31 December 2022 was outside of the Board approved limit for 2022:

<table>
<tr><th>Loan Type</th><th>Approved Mix for 2022</th><th>Actual Mix for 2022</th><th>Variance</th></tr>
<tr><td>Mortgage</td><td>65%</td><td>65%</td><td>0%</td></tr>
<tr><td>Debt Consolidation</td><td>0%</td><td>10%</td><td>-10%</td></tr>
<tr><td>Business</td><td>22%</td><td>18%</td><td>4%</td></tr>
<tr><td>Student</td><td>13%</td><td>7%</td><td>6%</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>
</table>
</td><td>Risk/Implication

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 hence have adverse effects on the Bank’s performance.

Recommendation

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.</td><td>Debt consolidation loans are offside as these loans are no longer offered by the bank. CIMA is aware of this breach.

As part of the strategic planning exercise, the Board is reviewing the portfolio mix and upon completion will update accordingly</td><td></td></tr>
<tr><td>iv. Infrequent Governance Meetings

Public Authorities Act (2020 Revision) Section 17 (1) (a) stipulates that a board shall meet at least once every three months and at such other times as may be necessary or expedient for the governance of the public authority. Neither the old Board nor the new Board met in the first quarter of 2022:
The tenure of the old Board expired 28 February 2022.</td><td>Risk/Implication
Complex issues like bad debt provision on receivables that demand substantially more time than the Board can commit to during the regular board meetings may not receive the necessary attention.
Sufficient time may not be allocated to oversee risk and research and address various risk management issues.</td><td>Noted. The bank contracted Ogier to act as an Internal Auditor. The Internal Audit Charter was board approved in June 2023. The first audit commences in the 3rd quarter of fiscal 2023 that will aide in oversight of critical areas for the sub</td><td></td></tr>
</table>

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
• The new Board was appointed on 1 February 2022 to be effective from 1 March 2022. The new Board did not meet until 29 April 2022. The Audit Committee met only once during the year. The Audit Committee Terms of Reference stipulates the Committee to meet at least four (4) times annually and present the minutes of proceedings of the meetings to the Board. Additional meetings may be called as required. The Credit Committee did not meet but items for their review were dealt with as part of the full Board Meetings. The Credit Committee Terms of Reference stipulates that meetings shall be held not less than once per month to approve facilities within the Committee's sanctioning authority; and to present the minutes of proceedings of the meetings to the Board. Board Meetings for 2022 were held on the dates below: ▪ April 27, 2022 ▪ May 31, 2022 ▪ June 29, 2022 ▪ July 29, 2022 ▪ October 10, 2022 ▪ December 14, 2022	▪ Intensive and comprehensive credit analysis required for current and prospective customer accounts may not be available. ▪ Poor decisions and poor recommendations on credit approval associated with large loans and other special requests for the Board may be made. ▪ Approval for loans "after the fact". **Recommendation** We recommend that the Board meet at least once every three months and at such other times as may be necessary or expedient for the governance of the Bank according to PAA. The Audit & Credit Committees of the Bank should become more involved in providing overall oversight to the strategic direction of the Bank and that the committees meet more often to undertake their roles more effectively such that recommendations from their meetings can be considered for decision making at the subsequent board meetings as mandated by the Terms of Reference.	*committees and ensure regular meetings and reporting. The 2 sub committees held several meetings in first half of 2023*	

<table>
<tr><th>Observation</th><th>Risk/Implication and Recommendation</th><th>Management Response</th><th>Implementation Date</th></tr>
<tr><td>v. Board Approved Loans “After the Fact”
The lending authority limits established by the Board allowed the GM/CEO to authorize new loans up to $200,000 and up to $50,000 for increases to existing loans. Two loans were Board approved after the fact in April 2022 outside of the authorized limits established by the Board:
The first loan was for an existing customer. This particular request was $100,000 ($50,000 above the authorized limit). $46,000 of the $100,000 was disbursed in April before the April Board approval. The remaining $54,000 to date is yet to be disbursed and is Board approved.
The second loan was for a new customer. The amount approved after the fact was $252,000 which was $2,000 over the authorized limit.</td><td>Risk/Implication
Loans may be approved that contravene the Bank's lending policies. This increases the credit risk for the Bank as borrowers may fail to meet their contractual obligations and default on their loan principal or interest payments. Such practices may also increase the risk of improper and excessive lending. This may jeopardize the Bank’s interests or be detrimental to its financial position and performance.

Recommendation

We recommend that management approve loans in accordance with the Bank's lending policies.</td><td>Noted however the loans were approved by the board. Only $46K was advanced that is within the GM’s limit for existing loans.. Rather than prepare 2 writings to advance $46K and remaining $54K once the board was in a position to meet one writing was prepared.

The $2K over the limit was a time sensitive mortgage closing.

These facilities are within product limits</td><td></td></tr>
<tr><td>vi. Non-compliance to the Public Authorities Act (2020 Revision)/Conflict of Interest

The Public Authorities Act (2020 Revision) deals with the appointment of board members. Section 9 (4) states that Cabinet shall require a person it proposes to appoint to give a full disclosure of that person’s interests to establish that no conflict of interest exists as required by the Standards in Public Life Act (2021 Revision) and the Anti-Corruption Act (2019 Revision).</td><td>Risk/Implication

The risks of unresolved conflicts of interest include dishonesty (e.g. fraud, misrepresentation), breach of the act or regulations, misuse of funds or resources, abuse of position (e.g. to demand payment or impose a penalty unlawfully), failure to perform official duty adequately or correctly, etc., for reasons of personal advantage.</td><td>The board member has prepared a new form (see attached) for the oversight.

The 2 loans are now eligible for a restructure under the bank’s policy and will be converted this fiscal year and the board member’s</td><td></td></tr>
</table>

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
A member of the Board did not disclose on the 2022 and 2023 Notice of Interest (NOI) forms a close family link and interest in two statutory authorities. The Board member provides project management services as a project manager at a Statutory Authority and Government Company (SAGC). The Board member is also the spouse of the managing director of a SAGC. The Board member disclosed that he is guarantor for 2 loans with the Bank. However, these two loans were 661 days and 2,255 days in arrears respectively at year end.	Conflicts of interest left unresolved, can result in corrupt conduct, abuse of public office, misconduct, breach of trust, or unlawful action. **Recommendation** We recommend that the Bank request that the Board member make full written disclosure of all relevant interests on the Notice of Interests Form. The Bank should also request that the guarantee arrangement be terminated or that both non-accrual loans be fully repaid.	*guarantee will no longer be required.*	
vii. Insufficient strategic direction and oversight of IT The Bank has adopted a corporate strategy which mentions the value of technology in moving the Bank forward, however, it does not give specific IT priorities sufficient to guide the alignment of IT with the business priorities. 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 segregation of duties and operational continuity.	**Risk/Implication** 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. **Recommendation** 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. These detective controls should also be formalized.	*Currently the bank is developing it's charter that will speak to aligning the IT and business directives.* *An MSP will be used to supplement the IT department and maintain services.* *Independent security services have already been secured by the bank. Resulting reports will be*	

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
		sent to the GM and Board of Directors. *Current site documentation is available to the GM in order to hand over to any replacement IT personnel.* *RMM solutions are being evaluated for the business, centralizing documentation, and credentials for use by the GM.*	