



CAYMAN NATIONAL CULTURAL FOUNDATION

Report to those charged with governance on the 2021 audit

June 2022

*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 31 December 2021 financial statements of the Cayman National Cultural Foundation (“the Foundation”). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Foundation 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; and
 - 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 2021 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 (2020 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 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, containing audited financial statements, we read the other information contained in the Foundation's annual report to consider whether such information is materially consistent with information appearing in the financial statements or our knowledge of the operations of the Foundation. We have reviewed the annual report containing the Foundation's 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 presented to the Board Chairman on 30 August 2021, 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 unmodified auditor's report on the financial statements.
9. A summary of adjustments made to the financial statements is attached in Appendix 1. There were no uncorrected audit misstatements.
10. As part of the completion of our audit we sought written representations from management on aspects of the accounts and judgments and estimates made. Management has provided us with representations in respect of our financial statement audit on 13 May 2022.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Foundation's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Foundation 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 are not consistent with general industry practice. In addition, we are not aware of any new or controversial accounting practices reflected in the Foundation's financial statements.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

12. Management has made significant judgments and estimates with regard to the following financial statement items:

- Revaluation of land and buildings.
- Depreciation and useful life of property & equipment

GOING CONCERN

13. 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 Foundation's ability to continue as a going concern.

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

14. Significant deficiencies were noted below in Appendix 2.

FRAUD OR ILLEGAL ACTS

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

16. 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.
17. No fraud or illegal acts came to our attention as a result of our audit.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

18. No significant difficulties were encountered during the course of our audit.

DISAGREEMENTS WITH MANAGEMENT

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

ANY OTHER SIGNIFICANT MATTERS

20. There were no other significant matters noted during audit.

ACKNOWLEDGEMENTS

21. We would like to express our thanks to the staff of the Foundation for their help and assistance during the audit of this year's financial statements.

Yours sincerely,



Sue Winspear, CPFA
Auditor General

APPENDIX 1 – SUMMARY OF ADJUSTED DIFFERENCES

| Date | Name | Account No: | Debit | Credit |
|------------|--|-------------|----------|-----------|
| 12/31/2021 | Accumulated Depreciation: Mind's Eye | 25-00-1 | 122,400 | |
| 12/31/2021 | Revaluation | 34-00-0 | | 330,992 |
| 12/31/2021 | Land & Buildings: Buildings | 35-00-0 | 139,888 | |
| 12/31/2021 | Accumulated Depreciation: Land & Building | 36-00-0 | 2,000,00 | |
| 12/31/2021 | Land & Buildings: Land | 41-00-1 | | 2,122,400 |
| 12/31/2021 | Works of Art: Heritage Asset-Mind's Eye | 99-00-1 | 72,030 | |
| 12/31/2021 | Depreciation Expense | 55-00-16 | 119,074 | |
| | Revaluation | | | |
| | To correct 2021 land revaluation reserve adjustment. | | | |
| 12/31/2021 | Accruals | 51-00-1 | | 6,256 |
| 12/31/2021 | Payroll: Vacation Owed | 90-00-10 | 6,256 | |
| | To record additional leave accrual excluded due to error. | | | |
| 12/31/2021 | Accruals | 51-00-0 | | 2,554 |
| | Professional Fees: Accounting | 94-00-1 | 2,554 | |
| | To accrue for 2021 audit fees. | | | |
| 12/31/2021 | Accounts Payable | 50-00-0 | 4,233 | |
| 12/31/2021 | Professional fees: Mktg | 94-00-0 | | 3,500 |
| 12/31/2021 | Program Expense: GKB Art Collection | 95-00-30 | | 733 |
| | To derecognize January 2022 charges booked as 2021 expense. | | | |
| 12/31/2021 | Accumulated Depreciation: Property | 39-00-0 | | 3,187 |
| 12/31/2021 | Improvements | 99-00-1 | 3,187 | |
| | Depreciation Expense | | | |
| | To adjust 2021 depreciation on Property Improvements incorrectly calculated. | | | |
| 12/31/2021 | Property Improvements | 25-00-0 | 47,978 | |
| 12/31/2021 | Furniture & Fittings | 32-00-0 | 99,371 | |
| 12/31/2021 | Accumulated Depreciation: F&F | 33-00-0 | | 17,863 |
| 12/31/2021 | Accumulated Dep | 39-00-0 | | 8,251 |
| 12/31/2021 | Accumulated Depreciation: Property | 41-00-0 | 25,055 | |
| 12/31/2021 | Improvements | 60-00-1 | | 172,404 |
| 12/31/2021 | Works of Art: Art Collection – Other | 99-00-1 | 26,114 | |
| | Contributed Capital: Government Equity Injection | | | |
| | Depreciation Expense | | | |

| | | | | |
|--|---|---|--|---|
| | To reverse entry posted in error, to associate assets purchased in prior year with 2020 grant funding received. | | | |
| 12/31/2021 12/31/2021 | Accruals Professional Fees: Consulting To accrue for legal fees. | 51-00-0 94-00-3 | 2,750 | 2,750 |
| 12/31/2021 12/31/2022 | Contributed Capital: Donated Assets Fundraising Income To recognize donation of Ms. Lassie's paintings. | 60-00-3 71-00-0 | 63,960 | 63,960 |
| 12/31/2021 12/31/2021 | Payroll Liability Payroll Pension Expense Accrual for December 2021 pension. | 53-00-0 90-00-5 | 2,021 | 2,021 |
| 12/31/2021 12/31/2021 12/31/2021 12/31/2021 12/31/2021 12/31/2021 12/31/2021 12/31/2021 | Administrative Expense: Reconciliation Discrepancy Retained Earnings Payroll and Related Expenses: Salaries Payroll and Related Expenses: Health Insurance Payroll and Related Expenses: Pension Professional Fees: Other Professional Entertainment Expense Utilities: Electricity To record PWO entries excluded in consolidation. | 99-00-2 61-00-0 90-00-6 90-00-7 92-00-0 94-00-2 91-00-21 97-00-0 | 27,008 2,185 1,307 62 | 2,858 25,823 1,781 100 |
| 12/31/2021 | Accruals Payroll: Artistic Director To accrue for severance payment. | 51-00-0 90-00-0 | 94,511 | 94,511 |
| | | | | |
| | Total | | 2,861,944 | 2,861,944 |

APPENDIX 2 – INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

| Observation | Risk/Implication and Recommendation | Management Response and implementation date |
|---|--|--|
| <p>1. <u>Long outstanding debt owed to Cayman Islands Government for insurance premiums</u></p> <p>The Foundation continues to accumulate debt with respect to insurance premiums paid on their behalf by the Government. The total owed as at 31 December 2021 was approximately \$248 thousand.</p> <p>In addition, Pirates Week Office has long outstanding payroll payables of approximately \$14 thousand as at 31 December 2021.</p> | <p>Risk/ Implication:</p> <p>The Foundation continues to accumulate debt and that could have an impact on its solvency.</p> <p>Recommendation:</p> <p>Management should devise a payment plan for the debt or negotiate with the Government to have the debt converted to equity.</p> <p>Management should investigate the long outstanding payroll payables and reverse or pay the \$14 thousand liability.</p> | <p>We have been in discussions with the Government for several years attempting to resolve this issue.</p> <p>It was brought to the attention of the MYSCH (again) on December 13, 2021.</p> <p>Deputy Chief Financial Officer, Veronica Mutava acknowledged receipt and intent to discuss with CFO and advise on Friday, 13 May 2022.</p> <p>No correspondence have been received, so Amanda Brown – the Director Designate sent a follow up email on 20 June 2022.</p> |
| <p>2. <u>No evidence of an inventory valuation schedule</u></p> <p>Management did not provide us with an inventory valuation schedule to support the inventory balance of \$18 thousand in the financial statements as of 31 December 2021.</p> | <p>Risk/ Implication:</p> <p>The financial statements may be misstated. Errors and omissions between the physical and system inventory records may not be detected and corrected on a timely basis.</p> | <p>We agree with the comments and the necessary steps shall be taken to address this. An inventory schedule shall be prepared and an inventory count to be considered as well.</p> |

| Observation | Risk/Implication and Recommendation | Management Response and implementation date |
|---|--|---|
| | <p>Recommendation:</p> <p>Management should prepare an inventory valuation schedule to support the year-end inventory balance. In preparing the schedule, any differences between the physical and system inventory balances should be investigated and resolved on a timely basis.</p> | |
| <p>3. <u>Non-compliance with the Public Authorities Act</u></p> <p>The Foundation paid bonuses of approximately \$5 thousand (categorized as a “Christmas gift” in the general ledger) to its employees in December 2021. The payment was not authorized by the Cabinet as required by section 48 (4) of the Public Authorities Act (2020 Revision).</p> | <p>Risk/ Implication:</p> <p>Non-compliance with laws and regulations.</p> <p>Recommendation:</p> <p>Management and the Board should ensure that all bonus payments are approved by Cabinet (before being paid) as required by law.</p> | <p>Board and Management will immediately comply in future as required by section 48 (4) of the Public Authorities Act (2020 Revision) and apologizes for the oversight.</p> |