UNIVERSITY COLLEGE OF THE CAYMAN ISLANDS

Report to those charged with governance on the audit for the year ended 31 December 2021

Issued: January 2023

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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 University College of the Cayman Islands ("UCCI"). In rendering my audit opinion on the financial statements, I have relied on the work carried out on my behalf by a public accounting firm who performed their work in accordance with International Standards on Auditing (ISAs). ISAs require that we communicate certain matters to those charged with governance of UCCI. 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;
    - modifications to the audit report; and
    - significant findings from our audit.

2. This report sets out those matters arising from the audit of the financial statements that we consider necessary to draw 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.

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 responsibilities to perform any audit work on other information, including forward-looking statements in documents containing audited financial statements, once provided to us we read the other information contained in UCCI'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 UCCI. We have reviewed and provided clearance to management for UCCI's 2021 annual report.

CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT

7. Information on the integrity and objectivity of the Office of the Auditor General and audit firm's staff, and the nature and scope of the audit, were outlined in the Engagement Letter presented to Dr. J.D. Mosley-Matchett, President of the University College of the Cayman Islands dated January 19, 2022 and follow the requirements of the ISAs. We are not aware of any impairment to our independence as auditors.

AUDIT REPORT, AUDIT ADJUSTMENTS AND REPRESENTATIONS FROM MANAGEMENT

8. We issued an unmodified auditor's report on the financial statements with an emphasis of matter paragraphs for:

   - Additional funding received from Government but had not been finally approved by Parliament through a supplemental appropriation as a requirement of the Public Management and Finance Act (2020 Revision) ("PMFA").

   - Prior and current year irregular expenditures whose nature and impact had been reported to those charged with governance in the prior year audit.

9. A summary of adjustments made to the financial statements that had arisen from the audit is attached in Appendix 1. Appendix 2 summarizes those uncorrected misstatements identified during the audit that were deemed by management to be immaterial, both individually and in aggregate, to the financial statements taken as a whole.

10. As part of the completion of our audit, we sought written representations from management relevant to the financial statements including aspects of the accounts and judgments and estimates made. Management provided us with these representations in a letter dated 30 April 2022 which formed part of our audit evidence.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the UCCI's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. International Financial Reporting Standards (IFRS) provide for UCCI 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 or of any controversial accounting practices reflected in UCCI's financial statements. UCCI implemented specific IFRS 9 requirements on measuring losses from financial assets using the expected credit loss methodology. During the year ended 31 December 2021, UCCI recognized surpluses arising from the report of professional valuers of its land and other real properties of about $6.1 million.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

12. Management was required to make significant judgments and estimates, such as, net realizable value of accounts receivable, defined benefit pension obligations, short-term lease exemption and carrying value of property, plant, and equipment, including the fair value of land buildings, and the useful lives of all asset classifications.

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 UCCI's ability to continue as a going concern.

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

14. We identified a number of significant matters relating to internal controls as part of our audit, including:

    1. System generated error relating to the trial balance
    2. Large number of reversal entries processed to correct errors
    3. Inadequate controls over the Canteen Operations (particularly revenue and related cash and purchases)
    4. Expected credit losses calculation inappropriate and doubtful debts misstated

5. Support for UCCI's operating system will cease during the subsequent period

Further details are included in Appendix 3 along with management's response. We have directly reported to management other internal control deficiencies that we did not view as being significant.

FRAUD AND 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 for the year ended 31 December 2021 except for the following matter:

    We have reported in the prior report to the Board of Governors that certain expenditure amounting to \$59,249 initiated and authorised by an employee, relating to the School of Hospitality was reported internally as suspicious. As a result, management conducted an investigation of these expenditures and determined that these expenditures were irregular. This matter was reported to the Royal Cayman Islands Police Service.

    As a result of confirming the irregularity, management expanded the investigation and reviewed all transactions authorized by this employee during the employee's tenure at UCCI and identified a further \$20,338 as suspicious. These expenditures were incurred between 1 July 2014 and 31 December 2018 and related primarily to the payment of stipends to students. The expenditure incurred during the 2020 financial year have been classified as 'Irregular Expenditure' within the Statement of Surplus (Deficit). In 2021, an additional amount of \$6,875 was identified, of which \$4,236 was recovered, for a net irregular expenditure amount of \$2,639.

The University College has taken remedial actions, including the implementation and monitoring of controls around the disbursement of expenditure. Some of the remedial actions are ongoing.

OTHER MATTERS

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

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

ACKNOWLEDGEMENT

20. We would like to express our thanks to the staff of the University College of the Cayman Islands for their help and assistance during the audit of this year’s financial statements.

Sue Winspear, CPFA
Auditor General

10 January 2023

APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS

Date	Name	Debit	Credit
12/31/2021	Unfunded pension liabilities	41,000	
12/31/2021	Revaluation of buildings		41,000
Being the adjustment to agree the unfunded pension liability to the final actuary report.			
12/31/2021	Rental income	500	
12/31/2021	Accounts receivable		500
Being correction to rental income			
12/31/2021	Depreciation expense	65,013	
12/31/2021	Accumulated depreciation		65,013
Being correction to depreciation charged			
12/31/2021	Supplies and materials	9,428	
12/31/2021	Inventory		9,428
To write off obsolete inventory			
12/31/2021	Movement in bad debt provision debts	2,462	
12/31/2021	Other income		2,462
Reclassification adjustment to record bad debts recovered within other income			

APPENDIX 2 –SUMMARY OF UNCORRECTED MISSTATEMENTS

Date	Name	Debit	Credit
12/31/2021	Tuition fees	60,505	
12/31/2021	Accounts receivable		60,505
Being the adjustment as the student register provided did not reconcile to the tuition fees balance			
12/31/2021	Accounts receivable	60,477	
12/31/2021	Canteen revenue		60,477
Being adjustment to correct the understatement of canteen revenue			
12/31/2021	Movement in provision for bad debts	118,844	
12/31/2021	Canteen revenue		118,844
Being adjustment to correct the understatement of the provision for bad debts			

APPENDIX 3 –SIGNIFICANT CONTROL DEFICIENCY

	Observation	Risk/Recommendation	Management Response
1.	***System generated error relating to the trial balance*** As reported in the prior year, the Finance team's final trial balance did not balance by a trivial amount, but per discussion management has yet to investigate the matter.	**Risk:** Such issues have a potential of being systemic and therefore future errors could be material. **Recommendation:** Discrepancies arising from the accounting software must be investigated and resolved timeously.	UCCI agrees with this observation. The software, Blackbaud, has been contacted in prior years and has been unable to identify the error. This issue continues to create increased risks as the system is at the end of it's life and the vendor is discontinuing support. The increased risk is part of the critical operational issues and ability to manage daily operations. The university has made the UCCI Board of Governors aware of the risks of continued use of Blackbaud and the urgent need for funding of a new system. The Board has agreed to fund the implementation of a new accounting software; however this transition may take up to two years. The cause of the error has been identified and will be rectified for the 2022 year end.
2.	***Large volumes of correction/reversing entries indicate deficiency in journal review process*** There were a significant number of reversal entries due to errors in the original entries. This observation was reported in the prior year as well.	**Risk:** Undetected errors in journal entries could lead to material misstatements in the financial statements. **Recommendations:** All proposed journal entries should be reviewed with supporting documentation and approved by management prior to finalisation. Also, journal entries should be reviewed subsequently to ensure that they have been processed accurately.	In 2022 all employees returned to on site and additional core staff was hired. This will allow us further resources to monitor, strengthen and possibly re-evaluate our internal controls. The additional staff should reduce the risk of errors in original entries which would of occurred due to individual work overload and also allows us to implement an added level of review/oversight.

3.	***Inadequate controls over the Canteen Operations (particularly revenue and related cash and purchases)*** We have previously reported on the inadequate controls over the Canteen Operations in our 2020 audit, but were still inadequate when we followed up in this audit. In 2020, cost of sales in respect of the Canteen Operations increased significantly relative to the 2019 financial year, which did not match the trend for revenue. It was further noted that reported revenue for certain months of the year was $nil, while cost of sales continued to be incurred. Also, daily revenue figures and actual cash received were not being reconciled. Finally, the Canteen Operations at the time in question were performed by a single employee without any segregation of duties.	**Risk:** The lack of controls, including the absence of segregation of duties and adequate monitoring create an opportunity to misappropriate assets (e.g. inventory, cash or both). **Recommendation:** Management should design and implement effective controls over the Canteen Operation to ensure that all sales transactions are recorded, and inventory is safeguarded from misappropriation. Additionally, these controls should ensure that segregation of responsibilities is adequate and that controls are monitored to ensure they continue to be relevant and fit for purpose (effective). Total physical cash received should be reconciled to the revenue report from the point-of-sale (register) should be matched on a daily basis (reconciliation). Inventory stock should be checked periodically against item quantity balances in records, and differences resolved within a reasonable time by employees independent of the Canteen Operations. The Finance Team should perform trends and ratios to identify potential anomalies on a timely basis.	The Canteen Operations resumed in 2022 and was outsourced to vendor Top Taste. The outsourced vendor is now responsible for the daily operations and internal controls of the Canteen, thus relieving management and the Board of Governors of any oversight. A multi-year contract was agreed upon where UCCI receives monthly rental income. This eliminates the circumstances that caused the inadequate controls in prior years.
4.	***Expected credit loss calculation was inappropriate and doubtful debts provision was misstated*** As required by accounting standards (IFRS 9), an estimate of how much revenue could be deemed as 'probably going to be bad debt' in the future. The standards changed within the past few years which introduced a new	**Risk:** Net accounts receivable on the statement of financial position could be materially overstated (or possibly materially understated depending on the data skew) **Recommendation:** Management should review its IFRS 9 methodology with the aim of incorporating relevant and available data.	UCCI agrees with this observation. IFRS 9 methodology will be reviewed and implemented when completing future assessments. Care will be taken to incorporate relevant and representative data.

	framework that required more data to be gathered, and judgment to be applied. During the audit, we found that data used for one of the factors in this estimate was based on a limited period of time, and not appropriate under the circumstance, particularly because a full year data could be produced. Management estimate was more aggressive (meaning, it resulted in lower bad debt estimates).	The default rate should be determined using collection rate that is as recent a data set as possible, while also being representative of the financial year (i.e. using one semester versus using one year). The collection rate of revenue generated in the Spring and Summer terms of the financial year should be factored in determining the default rate used in determining the expected credit losses. The provision for doubtful debts should be adjusted in line with expected credit loss estimate.	
5.	***Vendor (technical) support for UCCI's main information system will cease during the subsequent period*** During the audit, the audit team was informed that vendor support for the operating system used by UCCI will end in 2022. We note that UCCI is dependent on this information system to be able to effectively and efficiently deliver its educational services and manage its corporate affairs. We further note significant delays in planning and implementation of an adequate strategy to mitigate the risks associated with this observation.	**Risk:** In the event of a failure of the system, UCCI will not be able to obtain support from the vendor to rectify the issue which will likely impact negatively on UCCI's operations. **Recommendation:** In this short term, management should have a clear contingency plan based on risks that will be introduced by the ceasing of the support and a lack of viable alternative system. Management should also evaluate the alternative systems available and purchase and implement the new system in a timeous manner. In the longer term, management should incorporate the information system in its strategy and risk assessment, including periodic evaluation of its effectiveness, or similar to this situation, issues surrounding continuing support.	As noted above, in 2022 the Board has agreed to fund the implementation of a new accounting software, however this transition may take up to two years. In the interim, management has hired an onsite IT Technician to assist with any issues that may arise with the software. The skilled technician was involved in the creation of the current software and has shown on numerous occasions an ability to resolve issues quickly; namely, the trail balance issue mentioned above.