



UNIVERSITY COLLEGE OF THE CAYMAN ISLANDS

**Report to those charged with governance on the audit for the year
ended 31 December 2018**

*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 2018 financial statements of the University College of the Cayman Islands ("UCCI"). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the University College of the Cayman Islands. 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 Law (2018 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.

CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT

6. 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 Dr. Stacy R. McAfee, President and Chief Executive Officer of the University College of the Cayman Islands dated December 10, 2018, and follow the requirements of the ISAs. We are not aware of any impairment to our independence as auditors.

AUDIT REPORT AND ADJUSTMENTS

7. We issued an unmodified auditor's report on the financial statements.
8. A summary of adjustments made to the financial statements 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.

SIGNIFICANT FINDINGS OF THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

9. We are responsible for providing our views about qualitative aspects of the University College of the Cayman Islands significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the University College of the Cayman Islands 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 University College of the Cayman Islands financial statements.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

10. There were no matters which required management to make significant judgments or which required significant estimates.

GOING CONCERN

11. 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

12. We identified a number of significant matters relating to internal controls as part of our audit. These include:

1. Fixed Assets Recorded Under the Revaluation Model
2. Obsolete Inventory Items Not Provided For
3. Accounts Receivable – Bad Debt Provision
4. Unfunded Pension Liability
5. Tuition Fees and Student Register
6. Duty Allowance

Further details are included in Appendix 3 along with management's response.

FRAUD AND ILLEGAL ACTS

13. 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.
14. 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.

15. No fraud or illegal acts came to our attention as a result of our audit for the year ended 31 December 2018.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

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

DISAGREEMENTS WITH MANAGEMENT

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

ACKNOWLEDGEMENT

18. 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. We apologise for the delay in finalizing this report as well.



Sue Winspear, CPFA
Auditor General

21 August 2019
Cayman Islands

APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS

	Name	Debit	Credit
12/31/2018	Accumulated Deficit	388,681	
12/31/2018	Depreciation	253,251	
12/31/2018	Accumulated Depreciation: Building Adjustment for the increased depreciation due to the revised useful life of the buildings		641,932
12/31/2018	Land	50,000	
12/31/2018	Accum Depreciation: Building	1,053,450	
12/31/2018	Buildings		149,252
12/31/2018	Revaluation reserve Adjustment to revalue the land and buildings to its fair value		954,198
12/31/2018	Movement in provision for obsolete inventory	99,230	
12/31/2018	Provision for inventory obsolescence Adjustment to value the inventory at the lower of cost and net realizable value		99,230
12/31/2018	RBC - DOT/SOHS account	182,923	
12/31/2018	RBC MIN ACCOUNT (CI\$) Adjustment to correct bnk transfer dated in incorrect period		182,923
12/31/2018	Tuition fees – prior year charges	269,265	
12/31/2018	Other income – School of Hospitality Studies	42,725	
12/31/2018	Accumulated deficit		311,990
		2,339,525	2,339,525

APPENDIX 2 – SUMMARY OF UNCORRECTED MISSTATEMENTS

Date	Name	Debit	Credit
12/31/2018	Trade payables	33,738	
12/31/2017	Accumulated deficit Being judgmental adjustments to reverse unearned tuition fees recognized as income		33,738
12/31/2018	Expenses	22,000	
12/31/2017	Trade payables Being judgmental adjustment to operating expenses based on testing performed		22,000
		55,738	55,738

APPENDIX 3 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

	Observation	Recommendation	Management Response
1.	<p>Fixed Assets recorded under the Revaluation Model (IAS 16)</p> <p>We were unable to obtain an approved written policy or process for assessing the Fair Value of fixed assets being held under the revaluation model. Accounting Policy IAS 16-Property, Plant & Equipment states that <i>“Under the revaluation model, revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date.” [IAS 16.31]</i>. We also note that there was insufficient review over the accounting for revaluation of the land and buildings, and subsequent change in useful life.</p>	<p><u>Recommendation</u></p> <p>A written policy should be finalised to include the fair value assessment procedures to be undertaken by management in line with IAS 16. Further, the journal entries for processing changes in the valuation of the land and buildings and/or useful life should be subjected to review and approval</p>	<p>A draft policy has already been prepared for management review and was provided to the auditors on request. We will modify the current draft to include a section on asset revaluation, and have the policy approved timeously.</p>
2.	<p>Obsolete inventory items not provided for</p> <p>We noted items of inventory held at reporting date that are still valued at original cost despite most recent sale being last sold more than two years ago or being superseded by a newer edition. This is a departure from</p>	<p><u>Recommendations</u></p> <p>A policy to determine inventory obsolesce ought to be developed, which should include regular reviews of the inventory to determine whether there are any indicators of impairment. Examples of indicators of impairment include a newer edition of the same book being available, or a book</p>	<p>We will modify the existing policy and improve staff training on controls in this area. Availability of skilled resources continue to stymie effort to have the most robust system desirable.</p>

	Observation	Recommendation	Management Response
	International Accounting Standard 2: Inventory (i.e. lower of cost and net realizable value) and could result in a material overstatement of assets at reporting date.	no longer being prescribed by the University College.	
3.	<p><i>Accounts receivable – Bad debt provision</i></p> <p>The University College controls establish a provision for bad debts based on 100% of non-current students past due greater than 90 days. Where current students have outstanding balances at the end of a semester, they are restricted from registering for the following semester or receiving transcripts until the balances are paid. We also noted certain current students with outstanding balances that have been granted permission to register for the following semester.</p>	<p><u>Recommendation</u></p> <p>We recommend that where controls are being overridden, appropriately documented approvals are put in place.</p>	<p>Our determination of which accounts over 90 days are to be provided for is consistent with our policy that was provided to the auditors. Management makes exceptions for some students on a case by case basis after an informed review of their account and situation, by the Chief Financial Official, Registrar and in some cases the Department Chair. Limited accounting staff has posed significant challenges in the management of our large student debt portfolio. The University College does have a staff member dedicated to accounts receivable and credit management; this represents the real control weakness that is perpetrated by the lack of financial resources. As a compensating control measure, proposed changes in job assignment in administration should help to noticeably improve student account management including debt control, and billing timeliness and accuracy. Once the necessary resources are in place, we will increase the frequency of our bad debt review and update our policies accordingly. We will also introduce appropriate documentation of the approval of these exceptions.</p>

	Observation	Recommendation	Management Response
4.	<p><i>Unfunded pension liability</i></p> <p>It was noted that the Defined Benefit Pension has been underfunded to date. The liability owed to Central Government in relation to future Defined Benefit Pension obligations may not be met due to insufficient resources. We understand the University College would require additional funding to meet these payments or cut back on other core commitments to manage these requirements.</p>	<p><u>Recommendation</u></p> <p>The Board should formulate a payment plan in conjunction with Central Government and the Public Service Pension Board to meet the funding requirements of the Defined Benefit plan that is congruent with its overall operational plan.</p>	<p>On 29 November 2016, the Board of Governors, in a letter to the Public Service Pension Board ("PSPB"), requested a meeting to discuss the loans and payment plan to liquidate the University College's defined benefit obligation. A response was received on 3 May 2017. On 29 November 2016, the Board of Governors, in a letter to the Ministry of Education, requested a low interest loan to address the University College's defined benefit obligation. No loan or equity injection has been forthcoming from the Minister as requested. Management has included in its 2020/2021 budget submission, through the Ownership Agreement" a request for an Equity Injection sufficient to liquidate the \$1.252M December 31, 2018 unfunded pension liability balance. Management also intends to additional funding through future Purchase Agreements, sufficient to cover the annual pension service costs of its defined benefit pension plan.</p>
5.	<p><i>Tuition fees and student register</i></p> <p>We noted tuition fees in relation to prior years of \$269,000 being recognized in income during 2018. This arose because of a disconnect between the student registry system and the Blackbaud system. Students</p>	<p><u>Recommendations</u></p> <p>Management should ensure that all student registrations are recorded as revenue during each academic term. Reconciliations and reports necessary to demonstrate the completeness of recorded tuition revenue should be prepared,</p>	<p>Management has been in protracted dialogue with Blackbaud to determine the best system and process design to manage student billing. The best billing model to be deployed to address the University College's needs is under review.</p>

	Observation	Recommendation	Management Response
	have not been invoiced for the total amount of classes taken in the past.	reviewed and approved for every academic term.	Management is hopeful that the planned student information systems upgrade scheduled for the latter part of 2019 should improve functionality and reduce risks in this area. As with other process areas in accounting, limited skilled staff poses a challenge in committing adequate resources to strengthen through increasing reviews and reconciliations.
6.	<p><i>Duty allowance</i></p> <p>The University College pays an additional compensation called Duty Allowance to specific department heads and certain positions within management amounting to \$120,912. There are no contracts, agreements or board resolutions for these extended responsibilities and compensation and authorising these allowances nor were we able to identify any controls over the allowance amounts being paid.</p>	<p><u>Recommendations</u></p> <p>While there is a policy on administrative stipends and Head of Department allowances, it is recommended that an Appendix be included in the policy, detailing the positions that would attract the allowances as well as the value of such allowances.</p>	<p>Management believes that section K of the Board Approved salary policy speaks clearly and definitively about the mechanics of the administrative stipend and Head of Department Allowance and current practices are consistent with said policy. We will consider the audit recommendation and include the referred addendum if we so determine that this will improve internal controls and corporate governance</p>