



## **UNIVERSITY COLLEGE OF THE CAYMAN ISLANDS**

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**Report to those charged with governance on the audit for the year  
ended 31 December 2019**

*To help the public service  
spend wisely.*

# TABLE OF CONTENTS

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<b>Introduction .....</b>	<b>1</b>
<b>Responsibilities in relation to the audit .....</b>	<b>1</b>
Auditor's responsibility under International Standards on Auditing .....	1
Responsibilities of management and those charged with governance .....	1
Other information in documents containing audited financial statements .....	2
<b>Conduct, approach and overall scope of the audit .....</b>	<b>2</b>
<b>Audit report, audit adjustments and representations from management .....</b>	<b>2</b>
<b>Significant findings from the audit.....</b>	<b>3</b>
Significant accounting practices .....	3
Management's judgments and accounting estimates .....	3
Going concern .....	3
Significant deficiencies in internal control .....	3
Fraud AND illegal acts.....	4
Significant Difficulties encountered during the course of our audit .....	4
Disagreements with management .....	4
<b>Acknowledgement.....</b>	<b>5</b>
<b>Appendix 1 – Summary of Corrected Misstatements.....</b>	<b>6</b>
<b>Appendix 2 –Summary of Uncorrected Misstatements.....</b>	<b>7</b>
<b>Appendix 3 – Significant control deficiencies .....</b>	<b>8</b>



# REPORT TO THOSE CHARGED WITH GOVERNANCE

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## INTRODUCTION

1. We have completed our audit of the 31 December 2019 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) 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).

## 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.

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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 responsibilities to perform any audit work on other information, including forward-looking statements in documents containing audited financial statements, once provided to us, we will 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.

## 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 Dr. Stacy R. McAfee, President of the University College of the Cayman Islands dated October 14, 2019, 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.
9. 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.
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 provided us with these representations 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. Application of the expected credit loss methodology has not resulted in material changes to estimates made during 2018 and any other reporting period.

### 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 pensions, carrying value of property, plant and equipment (useful lives of assets).

### 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. Unfunded Pension Liability
  2. Inventory count adjustments
  3. Journal processing of unexplained trivial entries
  4. Annual report submission
  5. Notice of interest declarations for senior management

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.

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## 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 2019.

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## SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

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

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## DISAGREEMENTS WITH MANAGEMENT

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

25 June 2020  
Cayman Islands

## APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS

	<b>Name</b>	<b>Debit</b>	<b>Credit</b>
12/31/2019	Cost of sales	14,691	
12/31/2019	Inventory		14,691
Being update to inventory balance in line with physical count results			
12/31/2019	Impairment loss	65,015	
12/31/2019	Accumulated depreciation and impairments		65,015
Being impairment of nursing school building			

## APPENDIX 2 –SUMMARY OF UNCORRECTED MISSTATEMENTS

Date	Name	Debit	Credit
12/31/2019	Tuition revenue	21,600	
12/31/2019	Deferred revenue		21,600
	Being deferral of revenue to be recognized in the next year		
12/31/2019	Movement in Provision for obsolete inventory		
12/31/2019	Provision for obsolete inventory	14,643	
	Being further obsolete inventory items provided for		14,643

	Observation	Risk / Recommendation	Management Response
1.	<p><b>Unfunded pension liability</b></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 UCCI would require additional funding to meet these payments or cut back on other core commitments to manage these requirements.</p>	<p><i>Risk:</i> Having no clear plan to address the liability, add uncertainty to University College's liquidity management.</p> <p><i>Recommendation:</i> 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>The Board first approached the Ministry of Education on November 29, 2016 when they wrote to the then Minister requesting a low interest loan to payout the portion of the debt related to the negative plan asset; no official written response was received. Subsequently, during the 2020/2021 budget submission cycle, UCCI engaged the MOE through its Ownership Agreement (OA), to have the CIG fully fund the December 31, 2018 \$1.252M defined benefit pension obligation, the request however did not eventually form part of final OA approved by Cabinet. UCCI intends to continue the dialogue with the MOE to formulate the best strategy to liquidating this debt.</p>
2.	<p><b>Inventory count adjustments</b></p> <p>POS inventory balances were not updated to reflect physical quantities determined at the yearend inventory count.</p>	<p><i>Risk:</i> Inventory on hand may materially differ from amounts recognized within the balance sheet, i.e. a material misstatement</p> <p><i>Recommendation:</i> POS inventory balances should be adjusted after every inventory count to ensure that the inventory on hand is accurately recorded and up to date.</p>	<p>UCCI understands the importance of agreeing physical inventory with perpetual records and the updating POS records after a stock count is our normal practice. This omission was personnel related and the necessary training will be put in place to manage any risk of this being repeated in the future.</p>
3.	<p><b>Journal processing of unexplained trivial entries</b></p> <p>Several journal entries lacked explanation. Discussions indicated certain trivial journals had been processed within Blackbaud with no justification or supporting evidence.</p>	<p><i>Risk:</i> Unexplained journal entries could account as a material portion, creating an undetected cumulative material misstatement within the financial statements.</p> <p><i>Recommendation:</i></p>	<p>Management agrees that any journal entry made in Blackbaud should have relevant justification or supporting evidence attached. This functionality currently exists within the system as back-up documentation can be uploaded through the system's add-on module (PaperSave).</p>

### APPENDIX 3 – SIGNIFICANT CONTROL DEFICIENCIES

		Blackbaud should be configured to process journals only as intended and approved to ensure that valid, accurate and complete transactions have been recorded.	
4.	<p><b>Annual report submission</b></p> <p>UCCI failed to submit the draft annual report to the Auditor General by the end of February 2020 as required by the Public Management and Finance Law; further noting that this deadline was also not met for the 2018 annual report. At the time of this report, the 2019 annual report draft has not yet been submitted.</p>	<p><i>Risk:</i></p> <p>Late reports mean delayed accountability. It gives rise to various corporate risks, including to reputation. Furthermore, this delay contributes to another potential non-compliance when the deadline for tabling the annual report in the Legislative Assembly is overdue.</p> <p><i>Recommendation:</i></p> <p>UCCI in general and persons responsible for generating the annual reports in particular should ensure that UCCI complies with the annual report statutory deadline of the last day of February following the year-end and provide a high-quality annual report by that date.</p>	<p><b>Draft report sent to Grant Thornton on May 10, 2020.</b></p> <p><b>The ISA260 report will be reviewed with the Board in detail, particularly the risks noted for late annual report submissions.</b></p>
5.	<p><b>Notice of interest declarations for senior management</b></p> <p>It was noted that Notice of Interest statements are not obtained from senior management.</p>	<p><i>Risk:</i></p> <p>Weak implementation of notices of interest consequently weakens anti-corruption controls. It also gives rise to the risk of undisclosed related party relationships and transactions.</p> <p><i>Recommendation:</i></p> <p>Management should obtain declarations of interests of all senior management and examine them to ensure full disclosure of related party balances and transactions.</p>	<p><b>UCCI obtains Notice of Interest from Senior Managers every year on a routine basis. Managing the impact of COVID-19 on day to day operations has been Executive Leadership's highest priority and some normal processes were deferred under these extreme circumstances. Though obtaining the NOI's was delayed, UCCI has already made the request for Managers to submit their declarations and should have all submissions in hand by May 13, 2020. Once these declarations are submitted to the audit team, UCCI suggests that this observation be withdrawn from the ISA260 report.</b></p>