



UNIVERSITY COLLEGE OF THE CAYMAN ISLANDS

**Report to those charged with governance on the audit for the year
ended 31 December 2020**

*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 2020 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 not reviewed UCCI's 2020 annual report at this time because management has yet to finalise it.

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. Stacy R. McAfee, President of the University College of the Cayman Islands dated November 18, 2020 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 a qualified opinion (modified auditor's report) on the financial statements because of scope limitation. We found significant deficiencies in the Canteen Operations internal controls, as discussed in appendix 3, number 7. As a result of these significant deficiencies, we were unable to obtain sufficient, appropriate evidence over the occurrence and completeness of revenue generated and cost of sales incurred in relation to the Canteen Operations.
9. Our audit report also includes an emphasis of matter paragraph related to the irregular expenses discovered by management. Details of the fraud matter are discussed in paragraph 18.
10. 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.

11. 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. On 30 April 2021, Management provided us with these representations we routinely request to form part of our audit evidence. Subsequently, management informed our team that they have discovered fraudulent transactions that affected the year ended 31 December 2020; the details of the fraud are outlined in paragraph 18 below. The representation UCCI signed at 30 April 2021 included representations of having no knowledge of suspected or actual fraud, which is not consistent with the subsequent disclosure to us by Management. As a result, our audit report was not issued at that time. Management performed reviews of further identified transactions, and we have extended our audit procedures subsequently.
12. The representations we are seeking from management at this time are updated for specific matters regarding paragraph 18.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

13. 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.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

14. 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 (useful lives of assets).

GOING CONCERN

15. 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

16. 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. Journal processing of unexplained trivial entries (recurring)
4. Land donated to UCCI was not recorded
5. PAA 47 payments to certain employees were not in line with expectations
6. Inaccurate representations provided in April 2021
7. Inadequate controls over the Canteen Operations (particularly revenue and related cash and purchases)
8. Inadequate controls over the purchases and payments cycle, particularly in relation to the School of Hospitality
9. Absence of a policy to govern the payment of stipends paid to students and related controls

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

17. 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.

18. 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.

19. No fraud or illegal acts came to our attention as a result of our audit for the year ended 31 December 2020 except for the following matter:

Subsequent to year-end, certain expenditure amounting to \$59,249 initiated and authorised by an employee, relating to the School of Hospitality was reported as suspicious internally. 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 and its investigation is ongoing.

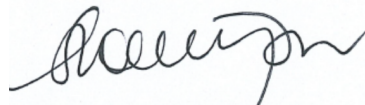
As a result of confirming the irregularity, management expanded the investigation and reviewed all transactions authorized by this employee during the employee's tenure at UCCI and identified a further \$20,338 as suspicious. These expenditures were incurred between 1 July 2014 and 31 December 2018 and 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). UCCI 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

20. No serious difficulties were encountered in the performance of our audit.
21. We have had no disagreements with management resulting from our audit.

ACKNOWLEDGEMENT

22. 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

December 2021
Cayman Islands

APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS

Date	Name	Debit	Credit
12/31/2020	Depreciation expense	104,771	
12/31/2020	Accumulated depreciation		104,771
To correct the depreciation charge related to buildings			
12/31/2020	Operating expenses	11,588	
12/31/2020	Supplies and materials	420	
12/31/2020	Salaries and wages – Adjunct staff		12,008
To reclassify expenses.			
12/31/2020	Donation revenue	28,117	
12/31/2020	Operating expenses		27,167
12/31/2020	Salaries and wages		950
To correct donation revenue and deferred donation balance			
12/31/2020	Computers	7,245	
12/31/2020	Operating expenses	10,675	
12/31/2020	Donation revenue		17,920
To recognize donation revenue not recorded during the year			
12/31/2020	Provision for doubtful debts	106,072	
12/31/2020	Movement in provision for doubtful debts		106,072
To adjust the provision for doubtful debts in accordance with IFRS 9			
12/31/2020	Fixed assets	460,000	
12/31/2020	Donated capital		460,000
To capitalise the land appropriated to the University College by the Cayman Islands Government			
12/31/2020	Salaries and wages	192,655	
12/31/2020	PAA 47 provision		192,655
To record the PAA 47 provision related to underpayments to certain employees			
12/31/2020	Irregular expenditure	59,249	
12/31/2020	Supplies and materials		59,249
To record the reclassification of certain expenditures incurred during the year as ‘Irregular expenditure’			

APPENDIX 2 –SUMMARY OF UNCORRECTED MISSTATEMENTS

Date	Name	Debit	Credit
12/31/2020	Trade receivables	40,876	
12/31/2020	Trade payables		40,876

Being the reclassification of debit balances within trade payables

12/31/2020	Retained earnings	63,186	
12/31/2020	Depreciation expense		63,186

Being adjustment to opening balance to correctly account for depreciation expense (related to Entry 1 Appendix 1)

APPENDIX 3 – SIGNIFICANT CONTROL DEFICIENCIES

Observations	Risks and Recommendations	Management Response
<p>1. System generated error relating to the trial balance</p> <p>The final trial balance did not balance by a trivial amount. Per discussion with management, this was due to an unknown error emanating from the accounting software.</p>	<p>Risk: Such issues may result in other errors that may be material in nature.</p> <p>Recommendation: Discrepancies arising from the accounting software must be investigated and resolved timeously.</p>	<p>UCCI agrees with this observation. The software vendor, 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 life and the vendor is discontinuing support.</p> <p>This 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.</p>
<p>2. Large number of reversal entries processed to correct errors</p> <p>Per review of the general ledger, it was noted that there were numerous reversal entries processed due to the originating entry being incorrect. Journal entries should be processed until transaction values have been finalized.</p>	<p>Risk: Journal entries that have been processed incorrectly, may not be detected causing the financial statements to be misstated.</p> <p>Recommendations: All proposed journal entries should be reviewed with supporting documentation and approved by management prior to be processed. Further, journal entries should be reviewed subsequently to ensure that they have been processed accurately.</p>	<p>UCCI agrees with this observation and processes are being improved. This finding reveals that UCCI is not funded to be suitably resourced and continues to request additional funding for not only faculty, but core staff, and needed IT systems. At year end 2020 and at the time of the 2020 audit work, UCCI financial staff included only 2 on site employees and part-time offsite contracted accounting (2 former employees – the VPBF & the CFO). Since then, the VPBF vacancy have been filled and internal controls have been strengthened, even with on-going challenges of insufficient funding for appropriate staffing levels for needed internal controls.</p>
<p>3. Journal processing of unexplained trivial entries</p> <p>Several journal entries lacked explanation. GT discussing with Finance indicated certain trivial</p>	<p>Risk: Unexplained journal entries could account as a material portion, creating an undetected cumulative misstatement within the financial statements.</p>	<p>UCCI agrees with this observation and processes have been improved for journal entry review, approval, and posting.</p>

Observations	Risks and Recommendations	Management Response
<p>journals had been processed within Blackbaud with no justification or supporting evidence.</p>	<p>Recommendation: Blackbaud should be configured to process journals only as intended and approved to ensure that valid, accurate and complete transactions have been recorded.</p>	
<p>4. Land donated to UCCI was not recorded It was noted that land donated to UCCI by the Cayman Islands Government was not recorded on the balance sheet as at 31 December 2020.</p>	<p>Risk: Financial statements may be incomplete, thereby understating balances.</p> <p>Recommendation: All transactions and balances should be recorded in the appropriate reporting period.</p>	<p>UCCI agrees with this observation and processes are continuing to be improved.</p>
<p>5. PAA 47 payments to employees were not in line with expectations During the examination of payroll expenses, it was noted that a number of employees were either over or underpaid in respect of PAA 47 retrospective payments (“retropay”) for 2019 and 2020 as compared to the expected payments to employees per the PAA 47 schedule submitted to the Cayman Islands Government for additional funding for this expense. Overall, the amount paid to employees in total was less than the expected amount for which additional funding was requested.</p> <p>Underpaid employees received retropay at an amount that was net of head of department allowances whilst the PAA 47 schedule did not take allowances into account.</p>	<p>Risk: The PAA expense maybe have been overfunded by the Cayman Islands Government or there may still be retropay amounts to be paid to employees by UCCI.</p> <p>Allocation of government funding by may not be appropriate as the remaining amount after payments to employees was not accrued for to be paid to the appropriate parties, but rather generally used in the operations of UCCI. This is not in line with what the additional funding was intended for.</p> <p>Recommendation: Further analysis is required on each payment to employees which differed from the PAA 47 schedule and the amount accrued for as at 31 December 2020 should be paid to the respective parties.</p> <p>Where inappropriate payments were paid to employees, UCCI should determine the appropriate</p>	<p>UCCI will be providing further analysis and reviewing the amount that was recorded as a liability as directed by the auditors. This question was asked in the last days before the audit deadline and there was not sufficient time to provide analysis of work performed by the previous VPBF & CFO of the detailed and complex calculations required for the PAA 47.</p> <p>UCCI anticipates that that the analysis will reveal that UCCI was not overfunded.</p>

Observations	Risks and Recommendations	Management Response
<p>Overpaid employees received COLA payments which caused their annual salary to exceed the highest pay grade per the PoCS guidelines or there were discrepancies between the pay grades used on the PAA 47 schedule and their actual pay grades per communications with employees.</p>	<p>course of action to recover amounts that were not due to said employees.</p>	
<p>6. Inaccurate representations provided in April 2021</p> <p>As discussed in paragraph 10 above, UCCI provided the OAG and our private audit firm with a representation letter that contained inaccuracies. In addition, qualitatively material disclosures would have been omitted from the 2020 financial statements had those versions of the financial statements been issued.</p>	<p>Risk: Impact on the reliability of management representation; material omission on the financial statements.</p> <p>Recommendation: Management should ensure that the representations requested in the management representation letter in relation to the audits of their financial statement are reviewed and updated to ensure accuracy, and discuss with the audit team any representation routinely stipulated that may not be accurate because of events known to them.</p>	<p>Transition in UCCI staffing resulted in a change in the VPBF and required signatures on the representation letter provided at the beginning of the audit as compared to the close of the audit.</p> <p>The representation letter for signature for the close of the audit was sent on April 30th at 11:17pm and was returned with signatures before midnight. Upon further review of the of the representation letter it was realized that recent discoveries had not been disclosed to the auditors. Grant Thornton and the Auditor General were notified quickly to prevent issuance of incorrect financial statements.</p>
<p>7. Inadequate controls over the Canteen Operations (particularly revenue and related cash and purchases)</p> <p>It was noted that during year, cost of sales in respect of the Canteen Operations increased significantly relative to the prior year, with no corresponding increase in revenue. It was further noted that reported revenue for certain months of the year was \$nil, while cost of sales continued to be incurred.</p> <p>Additionally, no reconciliation between daily revenue and cash received were performed and</p>	<p>Risk: The lack of controls, including the absence of segregation of duties and adequate monitoring can create an opportunity to misappropriate assets (either inventory, cash or both).</p> <p>Recommendation: Management should design and implement effective controls over the Canteen Operation with the objectives of ensuring that all sales transactions are recorded, and inventory is safeguarded from misappropriation. Additionally, these controls should ensure that adequate segregation of responsibilities is achieved and that these controls</p>	<p>The Canteen Operations were closed at the end of the Spring semester in May 2021. Current plans are underway to reopen the Canteen Operations in January 2022. Oversight of the Canteen Operations has moved from the academic area to the Vice President of Business and Finance. Reopening of the Canteen Operations will ensure appropriate internal controls are designed, implemented, and monitored.</p> <p>The Canteen Operations were moved from an outsourced vendor in 2018, and were operated as an extension of Academic teaching, work-based learning, and student services.</p>

Observations	Risks and Recommendations	Management Response
<p>all matters related to the Canteen Operations were performed by a single employee without any segregation of duties.</p>	<p>are monitored to ensure continued operating effectiveness. Daily sales reconciliations between the point-of-sale system and cash physically received should be performed and verified by employees who are independent of the Canteen Operations. Inventory stock counts should be performed on a periodic basis, with reconciliations between inventory physically on hand and the inventory records being performed and anomalies being investigated by employees independent of the Canteen Operations. Analytical reviews should be performed by the finance team on a periodic basis to identify potential anomalies on a timely basis.</p>	<p>With reopening of the canteen in 2022, UCCI management is establishing appropriate budgets and internal controls for this needed food service for students who are challenged with financial resources and even food insecurity.</p>
<p>8. Inadequate controls over the procurement and payments cycle, particularly in relation to the School of Hospitality</p> <p>It was noted that the University College paid certain invoices that were duly authorised for services that were not rendered to the University College. It was subsequently discovered that there was no agreement between the University College and the service provider; however, this was only discovered after the invoices were paid. This was caused by an absence of critical review of expense invoices by management, together with non-compliance with direct award procurement regulations.</p>	<p>Risk:</p> <p>The lack of controls around the purchases and payments cycle can result in misappropriation of assets and wasteful expenditure being incurred by the University College. UCCI also risks non-compliance with the Procurement Act.</p> <p>Recommendation:</p> <p>Management should perform due diligence on all vendors prior to engaging them for the provision of goods and services to UCCI. This due diligence should be sufficient enough to establish that the potential vendor is a bona fide business. Management should create a database of approved vendors that must be used for the purchase of all goods and services. Strict masterfile controls over this database must be implemented and all additions and changes to the masterfile should be reviewed and approved.</p>	<p>It is unfortunate that an opportunistic fraudster used his approval authority to exploit and misappropriate UCCI assets. The RCIPS investigation revealed that the shell company used was properly licensed. The fraudster used methods that subverted internal controls.</p> <p>The following internal controls were implemented and are continuing to be strengthened in the following areas:</p> <ul style="list-style-type: none"> *Multiple steps of documentation and approvals of invoices have been added. Currently not only is there a requestor, supervisor, but also an executive leader approval required before an invoice is processed for payment by accounting staff. All payments require approval of 2 executive leaders. *Ongoing review is occurring to identify and post information that is required to be posted on the government procurement website for direct awards.

Observations	Risks and Recommendations	Management Response
	<p>Management should ensure that requirements for direct awards under the Procurement Act and Regulations are complied with.</p>	<p>*Ongoing training, review, and processes are being improved for compliance with the Procurement Act and Regulations.</p> <p>*As a note, this finding reveals that UCCI is not funded to be suitably resourced and continues to request additional funding for not only faculty, but core staff, and needed IT systems. UCCI financial staff continues to have on-going challenges of insufficient appropriate staffing levels for needed internal controls.</p>
<p>9. Absence of a policy and process in relation to the payment of stipends to students and related controls</p> <p>It was noted that there were stipends paid to students by an employee who was subsequently reimbursed by the University College. Management was unable to explain what purpose these stipends served, or why the stipends were not paid directly to students. Further, there was no policy in place with respect to payment of stipends to students. We were informed by management that such stipends are no longer provided to students; this practice ended during the 2018 financial year.</p>	<p>Risk:</p> <p>The absence of a policy in relation to the payment of stipends and related controls could result in stipends being paid to student who are ineligible or fictitious or the students receiving the incorrect amount or at the incorrect frequency; all these scenarios result in a misappropriation of the University College’s assets.</p> <p>Recommendation:</p> <p>Should management reinstate the practice of disbursing cash stipends to students, management should develop a policy outlining the circumstances under which a student would qualify for a stipend and identify the employee responsible for approving such a stipend and the employee responsible for paying the stipend to the student directly. Management should monitor the controls implemented to ensure operating effectiveness and adherence to the policy.</p>	<p>This observation is related to the expanded sampling for 7 years related to areas that the former employee exploited. Cash stipends are no longer provided to students and that practice ended in 2018. Cash stipends were a practice that existed prior to current UCCI leadership under President Stacy McAfee.</p>