School District No. 10 (Arrow Lakes)

Audit Findings Report

Year ended June 30, 2022

For presentation on September 20, 2022

kpmg.ca/audit

Table of contents

Our refreshed Values

What we believe

Integrity

We do what is right.

Excellence

We never stop learning and improving.

Courage

We think and act boldly.

Together

We respect each other and draw strength from our differences.

For Better

We do what matters.

KPMG contacts

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Audit highlights

Purpose of this report

The purpose of this report is to assist you, as a member of the Board of Education (the "Board"), in your review of the results of our audit of the financial statements of School District No. 10 (Arrow Lakes) (the "School District") as at and for the year ended June 30, 2022.

Status of the audit

As of September 20, 2022, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include:

– Completing our discussions with the Board;

– Obtaining the signed management representation letter;

– Obtaining evidence of the Board's approval of the financial statements; and,

– Completing subsequent event review procedures up to the date of the Board's approval of the financial statements; and,

– Reporting to the Office of the Auditor General for the purposes of reliance on our audit opinion in the audit of the summary financial statements of the Province

We will update the Board on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

Our auditors' report, a draft of which is attached to the enclosed financial statements, will be dated upon the completion of any remaining procedures.

Materiality and areas of audit focus

We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the audit and of any uncorrected misstatements on the financial statements. For the 2022 audit, we determined materiality of $300,000 (2021 - $240,000).

Our audit is risk focused. We have identified the following key areas of audit focus:

– Tangible capital assets and deferred capital revenue

– Salaries and benefits expense

– Revenue and deferred revenue

– Auditors' Opinion – Compliance Framework

See pages 5 to 7 for the audit findings related to these areas of audit focus.

This report is intended solely for the information and use of management, the Board and the Board of Education and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report to the Board has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Audit highlights (continued)

Adoption of new accounting policy

The School District has retroactively changed its accounting policy for tangible capital asset amortization and deferred capital revenue amortization in the year and asset is placed into service.

See page 9 for further details.

Audit misstatements

Audit misstatements include presentation and disclosure misstatements, including omissions.

Uncorrected audit misstatements

We did not identify any misstatements that remain uncorrected by management.

Corrected audit misstatements

Other than recommendations regarding financial statement presentation and disclosure, we did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Control deficiencies and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting.

Independence

We confirm that we are independent with respect to the School District within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from July 1, 2021 up to the date of this report.

Current developments

Please refer to page 12 and Appendix 3 for current developments updates, upcoming and new accounting standards under development

Areas of audit focus

Area of audit focus

Tangible Capital Assets and Deferred Capital Revenue

Background

In the 2022 fiscal year, the School District invested $4.8 million (2021 - $1.7 million) into tangible capital asset additions.

Our Response

- We selected a sample of additions for testing and inspected the supporting invoices to determine if the amount recognized agreed, was capital in nature, and eligible per the funding sources.
- We obtained an understanding of the funding sources for the tangible capital asset additions incurred during the year. We ensured the cumulative expenditures incurred year-to-date for capital projects did not exceed the total approved funding in the related certificate of approval.
- We recalculated amortization expense recorded during the year based on estimated useful life of tangible capital assets.
- We reviewed the information related to deferred capital revenue, which is used to support our additional reporting to the Office of the Auditor General ("OAG").

Significant Findings

– There were no issues noted in our testing.

Areas of audit focus

Area of audit focus

Salaries and benefits expense

Background

The School District incurred total salaries and benefits expense of $8.2 million during the year (2021 - $7.7 million).

Our Response

- We obtained an understanding of the fluctuations in expenses relative to prior year and the approved budget. We corroborated significant variances noted by reviewing supporting documentation.
- We performed analytical procedures for salaries and benefits expense based on the change in head count and pay rates. We tested the completeness and accuracy of the head count information and agreed the pay rates to union and other employment agreements.
- The School District's Accrued Benefit Obligation (“ABO”) is calculated annually at March 31 (early measurement date) by the actuary, Mercer, and is used for estimating the employee future benefit liability as at June 30. Accounting Standards require that significant changes in assumptions between the measurement date and the financial statement date should be evaluated to determine its impact on the actuarial valuation for retirement benefits.

Significant Findings

- There were no issues noted in our testing.
- Due to the rise in interest rates between March and June 2022, Mercer noted that updated discount rate assumptions at June 30, 2022 would decrease the ABO by 5 to 7%. We evaluated the impact of the rate change on the financial statement notes at June 30, 2022 and concluded the differences are not considered significant to adjust or disclose in the financial statement notes. These will be adjusted by the actuary into its fiscal 2023 valuation.

Areas of audit focus

Area of audit focus

Revenue and deferred revenue

Background

The School District receives operating grants and special purpose funding from the Ministry each year. Operating grants are recognized as revenue in the fiscal year to which they relate. Special purpose grants must be used for the purpose specified by the Ministry.

In fiscal 2022, the School District recognized total revenue of $11.3 million (2021 - $10.9 million) of which $10.4 million relates to grants from the Ministry of Education and Child Care (2021 - $10.2 million).

Our Response

- We obtained a confirmation from the Ministry for the funding provided in the 2022 fiscal year and agreed the operating grants to the amount of revenue recognized.
- We agreed the special purpose funding received and recorded in deferred revenue to the confirmation received from the Ministry. We ensured that the special purpose funding recognized as revenue was consistent with the expenses incurred and the purpose of the funding specified by the Ministry.

Significant Findings

– There were no issues noted in our testing.

Areas of audit focus

Area of audit focus

Auditors' Opinion – Compliance Framework

Background

The School District's financial statements are prepared in accordance with the financial reporting provisions of Section 23.1 of the Budget transparency and Accountability Act of the Province of British Columbia supplemented by Regulations 257/2010 and 198/2011. This financial reporting framework is a general-purpose compliance framework.

Our Response

- We review the School District's disclosure of the financial reporting framework and assess accounting recognized in the statement of operations and deferred capital revenue would have been recorded differently under Canadian Public Sector Accounting Standards.
- We performed additional reporting as requested by The Office of the Auditor General ("OAG") under the Group Auditor requirements, in order to perform the consolidation of the Provincial Accounts under Canadian Public Sector Accounting Standards

Significant Findings

– There were no issues noted in our testing.

Change in accounting policy

Background

On May 28, 2021, the Office of the Comptroller General directed all school districts to apply a half-year rule method of recording tangible capital asset and related deferred capital revenue amortization in the fiscal year an asset is placed into service. This directive has been applied to both past and future purchases. Prior to this directive, the School District did not recognize tangible capital asset or related deferred capital amortization in the first partial service year. The government directive resulted in a change in accounting policy which was applied retroactively.

The impact of the change in accounting policy was a decrease in accumulated surplus of approximately $94 thousand at the beginning of the earliest comparative period, being July 1, 2020. The change in policy was a non-cash timing difference in amortization impacting the Capital Fund. The Operating Fund and Special Purpose Funds were not impacted by the change in policy.

Our Response

- We obtained management's assessment of the change and the related adjustments. We compared the adjustment to the amortization tool provided by the Ministry that tracked additions and disposals and the cumulative impact of the change in accounting policy.
- We compared the value of the adjustment based on historical additions and disposals audited in previous years and prior year audit differences reported to the Board.
- We compared management's adjustments to the balances presented in the financial statements.
- We assessed the application of the change to Canadian Public Sector Accounting Standards and concur that the adjustment is appropriately reflected as a change in accounting policy and appropriately applied retroactively.

Significant Findings

- We noted that the impact of the accounting policy change on accumulated surplus of approximately $94 thousand is not significantly different than the accumulated surplus difference reported in our June 2021 audit findings report ($92 thousand).
- Our auditors' report includes reference to the comparative information for fiscal 2021 being restated, our audit procedures performed over the adjustment and that our opinion is not modified with respect to the adoption of the new accounting policy.

Audit risks

Significant Risk - Professional requirements	Why is this significant?
Presumption of the risk of fraud resulting from management override of controls.	This is a presumed fraud risk in accordance with Canadian generally accepted auditing standards for all entities. Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

Our response

As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:

- Testing of journal entries and other adjustments.
- Performing a retrospective review of significant estimates.
- Evaluating the business rationale of significant unusual transactions.

Significant findings

There were no issues noted in our testing.

Significant accounting policies and practices

Significant accounting policies

- There were no initial selections of or changes to the new significant accounting polices and practices, other than the adoption of a new accounting policy for amortization as described on page 9.
- There were no issues noted with the timing of the School District's transactions in relation to the period in which they were recorded.
- There were no issues noted with the extent to which the financial statements are affected by a significant unusual transaction or non-recurring amounts and extent of disclosure of such transactions.

Significant accounting estimates

- There were no issues noted with management's identification of or process for making accounting estimates.
- There were no significant factors affecting the School District's asset and liability carrying values.

Financial statement presentation and disclosure

- There were no issues noted with the judgments made, in formulating particularly sensitive financial statement disclosures.
- There were no issues noted with the overall neutrality, consistency, and clarity of the disclosures in the financial statements.
- There were no significant potential effects on the financial statements of significant risks, exposures and uncertainties.

Implications of PS 3280 Asset Retirement Obligations

PS 3280 Asset Retirement Obligations ("PS 3280") is a new accounting standard effective for the fiscal years beginning on or after April 1, 2022. This standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets by public sector entities. This significant new accounting standard has implications that have the potential to go beyond financial reporting.

Financial reporting implications

A liability for asset retirement costs will be recorded with a corresponding increase in the cost of tangible capital assets in productive use, resulting in a decrease (increase) to the net financial assets (net debt) reported in the Statement of Financial Position.

Asset retirement obligations associated with tangible capital assets that are not recognized or no longer in productive use are expensed.

Additional non-cash expenses for the amortization of tangible capital assets and accretion will be recognized annually.

The total cost of legally required retirement activities will be recognized earlier in a tangible capital asset's life. There is no change to the total cost recorded over an asset's life.

A rigorous process needs to be established to support updates to the ARO measurement on an annual basis post-initial implementation.

Asset management implications

The asset retirement date used to determine the asset retirement liability needs to be consistent with the useful life of the related tangible capital asset. As a result, public sector entities need to assess whether the useful lives of tangible capital assets continue to be accurate and consistent with asset management plans.

Many public sector entities are using the implementation of PS 3280 as an opportunity to develop or refine their asset management plans.

Funding implications

PS 3280 does not provide guidance on how the asset retirement liability should be funded. Many public sector entities currently fund retirement costs as they are incurred at the end of the asset's life. Public sector entities will need to assess whether this practice remains appropriate or if funding will be obtained over the life of the asset.

Budget implications

In addition to budgeting for costs associated with the initial implementation of PS 3280, public sector entities will need to consider if the non-cash accretion expense and additional amortization expense will be included in the annual budget.

Public sector entities operating under balanced budget legislation or similar guidelines will need to obtain guidance from the provincial government to determine the impact of PS 3280 on current requirements.

Capital planning implications

PS 3280 requires legal obligations associated with the retirement of tangible capital assets to be recorded when the assets are acquired, constructed or developed. As a result, the cost of legally required retirement activities will need to be considered at the inception of a capital project to determine the financial viability and impact of the project.

Appendices

Appendix 1: Required communications

Appendix 2: Management representation letter

Appendix 3: Current developments

Appendix 1: Required communications

Draft auditors' report

The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.

Independence

In accordance with professional standards, we have confirmed our independence.

Management representation letter

In accordance with professional standards, a copy of the management representation letter is included in Appendix 2.

Appendix 2: Management representation letter

KPMG LLP
200-3200 Richter Street
Kelowna, BC V1W 5K9
Canada

September 20, 2022

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as “financial statements”) of School District No. 10 (Arrow Lakes) (“the Entity”) as at and for the period ended June 30, 2022.

General:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Responsibilities:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated June 1, 2022, including for:

   a) the preparation of the financial statements and believe that these financial statements have been prepared in accordance with the relevant financial reporting framework.

   b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements (“relevant information”), such as financial records, documentation and other matters, including:

      — the names of all related parties and information regarding all relationships and transactions with related parties;

      — the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements. All significant actions are included in such summaries.

   c) providing you with unrestricted access to such relevant information.

   d) providing you with complete responses to all enquiries made by you during the engagement.

e) providing you with additional information that you may request from us for the purpose of the engagement.

f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.

g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

i) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that we, and others within the entity, did not intervene in the work the internal auditors performed for you.

Internal control over financial reporting:

2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

Fraud & non-compliance with laws and regulations:

3) We have disclosed to you:

a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

b) all information in relation to fraud or suspected fraud that we are aware of that involves:

— management;

— employees who have significant roles in internal control over financial reporting; or

— others

where such fraud or suspected fraud could have a material effect on the financial statements.

c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.

d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.

e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Subsequent events:

4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

Related parties:

5) We have disclosed to you the identity of the Entity's related parties.

6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Employee future benefits:

8) The employee future benefits costs and obligations have been determined, accounted for and disclosed in accordance with the financial reporting framework.

9) All arrangements (contractual or otherwise) by which programs have been established to provide employee benefits have been disclosed to you and included in the determination of employee future benefits costs and obligations.

10) The assumptions included in the actuarial valuation are those that management instructed Mercer to use in computing amounts to be used by the Entity in determining non-pension post employment benefits costs and obligations and in making required disclosures in the above-named financial statements, in accordance with the relevant financial reporting framework.

11) The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.

12) The extrapolations are accurate and properly reflect the effects of changes and events that occurred subsequent to the most recent valuation and that had a material effect on the extrapolation.

13) All material events and changes to the plan subsequent to the most recent actuarial valuation have been properly reflected in the extrapolation.

Environmental matters:

14) The Entity has appropriately recognized, measured and disclosed liabilities for contaminated sites in the financial statements.

Estimates:

15) The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

Going concern:

16) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.

17) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

Accounting changes:

18) We believe that the change in policy related to the application of the half-year rule for disposals is reliable and more relevant than the previous accounting policy because it results in a more precise estimate of amortization that aligns with the period of use of the tangible capital asset.

Non-SEC registrants or non-reporting issuers:

19) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002).

20) We also confirm that the financial statements of the Entity will not be included in the group financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Other:

21) The amounts reported as differences between accounting for Non-Provincial restricted contributions in accordance with the Restricted Contributions Regulation as compared to Public Sector Accounting Standards for the purpose of reporting to the Office of the Auditor General are complete and accurate.

Yours very truly,

School District No. 10 (Arrow Lakes)

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By: Michael McLellan, Secretary-Treasurer

Attachment I – Definitions

Materiality

Certain representations in this letter are described as being limited to matters that are material.

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances, and are affected by perception of the needs of, or the characteristics of, the users of the financial statements and, the size or nature of a misstatement, or a combination of both while also considering the entity's own circumstances.

Fraud & error

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Appendix 3: Current developments

New auditing standards

The following changes to auditing standards applicable to our 2023 audit are listed below.

Standard	Key observations
Revised CAS 315, Identifying and Assessing the Risks of Material Misstatement	Revised CAS 315, Identifying and Assessing the Risks of Material Misstatement has been released and is effective for audits of financial statements for periods beginning on or after December 15, 2021. The standard has been significantly revised, reorganized and enhanced to require a more robust risk identification and assessment in order to promote better responses to the identified risks. Key changes include: – Enhanced requirements relating to exercising professional skepticism – Distinguishing the nature of, and clarifying the extent of, work needed for indirect and direct controls – Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of controls – Introduction of scalability – Incorporation of considerations for using automated tools and techniques – New and revised concepts and definitions related to identification and assessment of risk – Strengthened documentation requirements CPA Canada has published a Client Briefing document to help you better understand the changes you can expect on your 2023 audit – Click here to access the document.

Appendix 3: Current developments (continued)

Public Sector Accounting Standards

Standard	Summary and implications
Asset Retirement Obligations	- The new standard is effective for fiscal years beginning on or after April 1, 2022. - The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. - The ARO standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life. - As a result of the new standard, the public sector entity will have to: • Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.
Revenue	- The new standard is effective for fiscal years beginning on or after April 1, 2023. - The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. - The standard notes that in the case of revenues arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. - The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Appendix 3: Current developments (continued)

Standard	Summary and implications
Employee Future Benefit Obligations	– PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. PSAB intends to use principles from International Public Sector Accounting Standard 39 *Employee Benefits* as a starting point to develop the Canadian standard. – Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. – PSAB released an exposure draft on proposed section PS3251, Employee Benefits in July 2021. Comments to PSAB on the proposed section were due by November 25, 2021. Proposed Section PS 3251 would apply to fiscal years beginning on or after April 1, 2026 and should be applied retroactively. Earlier adoption is permitted. – This proposed section would result in organizations recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations.

Thought leadership

Thought leadership	Overview	Links
Unleashing the Positive in Net Zero	CoP26 in Glasgow made some progress to tackling climate change but there is much more to do. At KPMG, we're committed to accelerating the changes required to fight climate change. Our Global portal provides links to further thought leadership to help drive real change.	Link to Global portal
Board Leadership Centre + Audit Committee Guide	KPMG in Canada Board Leadership Centre engages with directors, board members and business leaders to discuss timely and relevant boardroom challenges and deliver practical thought leadership on risk and strategy, talent and technology, globalization and regulatory issues, financial reporting and more. The new Audit Committee Guide – Canadian Edition from our Board Leadership Centre provides timely, relevant and trusted guidance to help both new and seasoned audit committee members stay informed.	Link to Canadian portal Link to 2021 guide

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