School District No. 10 (Arrow Lakes)

Audit Findings Report for the year ended June 30, 2023

KPMG LLP

For presentation on September 26, 2023

KPMG contacts

Key contacts in connection with this engagement

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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 as at and for the period ended June 30, 2023. This report is intended solely for the information and use of Management, and the Board 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 has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

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Click on any item in the table of contents to navigate to that section.

Highlights

Status of the audit

As of the date of this report, we have completed the audit of the financial statements (hereinafter referred to as the “financial statements”) of School District No. 10 (Arrow Lakes) (the “School District”), with the exception of certain remaining procedures, which include amongst others:

- Completing and finalizing documentation of our audit procedurs.
- Completing our discussions with the Board of Education;
- Obtaining the signed management representation letter;
- Obtaining evidence of the Board’s approval of the financial statements; and,
- Completing any subsequent event review procedures up to the date of the Board’s approval of the financial statements.

Our auditor’s report, a draft of which is attached to the financial statements, will be dated upon the completion of any remaining procedures.

Significant changes to our audit plan

There were no significant changes to our audit plan from what was originally communicated to you in the audit planning report.

Areas of audit focus

As part of our audit, we identified areas of audit focus which include:

- Auditor ’s Opinion - Compliance Framework
- Asset retirement obligations
- Accounts payable, accrued liabilities and expenses
- Revenue, receivables and unearned and deferred revenue
- Tangible capital assets and deferred capital revenue

Significant risks

We have not identified significant risks of material misstatement for the audit, except for the presumed risk of fraud resulting from management override of controls, which is required by professional standards.

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention other than the adoption of the asset retirement obligations accounting standard.

In accordance with professional standards, the newly revised risk assessment auditing standard (CAS 315) was implemented in the audit.

Highlights (continued)

Materiality

We determine materiality in order to plan and perform out audit to evaluate the effects of identified differences on the audit and any uncorrected differences in the financial statements.

Materiality has been determined based on budgeted revenue for the year, consistent with previous years. We have determined materiality for the 2023 fiscal year audit to be $310,000 (2002 - $300,000)

Audit misstatements

Audit misstatements include presentation and disclosure misstatements, including omissions.

Uncorrected audit differences

We did not identify any significant differences that remain uncorrected by management.

Our management representation letter (Appendix 2) includes management's representation regard uncorrected and corrected audit misstatements.

Corrected misstatements

We did not identify any misstatements that were corrected management in the financial statements – other than recommendations on financial statement presentation and disclosure.

Control observations

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

We did identify performance improvement opportunities that were communicated to management in the current year.

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, 2022, up to the date of this report.

Current developments

In our audit planning report, we provided details on the newly effective auditing standard for risk assessment CAS 315, as well as the newly effective accounting standard for Asset Retirement Obligations (PS 3280) applicable for the fiscal year ended June 30, 2023. There have been no changes since we provided that information.

Audit findings - Significant risk

Management override of controls

RISK OF FRAUD

Professional requirements

Fraud risk from management override of controls

Why is this significant?

This is a presumed fraud risk. Although the level of risk of management override of controls will vary from entity to entity, professional standards presume the risk of management override of controls is nevertheless present in all entities and requires the performance of specific procedures to address this presumed risk.

We have not identified any specific additional risks of management override relating to this audit.

Our response

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 any significant estimates.
- Evaluating the business rationale for significant unusual transactions.

Significant findings

There were no issues noted in our audit testing described above.

Audit findings - Areas of audit focus (continued)

Area of audit focus – Auditor's Opinion Compliance Framework

- The financial statements are prepared under Canadian Public Sector Accounting standards ("PSAS"), supplemented by the requirements of Regulations 257/2010 and 198/2011 issued by the Province of British Columbia Treasury Board.
- These regulations direct the School District to apply PSAS, except in regard to accounting for restricted contributions. Under the regulations, capital contributions are deferred and amortized on the same basis as the amortization of the related tangible capital assets, not in accordance with the underlying stipulations on the funding, as required under PSAS.
- As a result, the School District's revenue recognized in the statement of operations and certain related deferred capital revenue would have been recorded differently under Canadian Public Sector Accounting Standards.

Our response

- The Office of the Auditor General ("OAG") has requested additional reporting, under the Group Auditor requirements, in order to perform the consolidation of the Provincial Accounts under the PSA standards.
- We will be reviewing the reporting prepared for the OAG, including the reconciliation of deferred capital contributions and will report to OAG accordingly.

Significant findings

There were no issues noted in our audit procedures.

Audit findings - Areas of audit focus (continued)

Area of audit focus – Asset retirement obligations

PS 3280 Asset Retirement Obligations ("PS 3280") is a new accounting standard effective for the School District's 2023 fiscal year. As at June 30, 2023, the School District has recognized a liability for asset retirement obligations of approximately $1.8 million. The School District identified that the asset retirement obligations related to fully-amortized buildings and, as a result, has reflected the impact as an reduction of accumulated surplus in its Capital Fund as at July 1, 2021.

Our response

- We obtained an understanding of management's process for implementing PS 3280, including how in-scope tangible capital assets were identified, sources of information used, and significant measurement data, assumptions and decisions.
- We ensured the asset retirement obligations accounting policy set by management, which is based on guidance provided by the Province of British Columbia, is in accordance with PS 3280.
- We reviewed the tangible capital asset categories per the financial statements used to scope asset retirement obligations to ensure management's identification of tangible capital assets with potential in-scope retirement obligations is accurate and complete.
- We obtained management's calculation of the liability. We agreed the inputs into the calculation to supporting documentation, assessed whether assumptions made by management are reasonable and recalculated the liability.
- We reviewed the financial statement presentation and note disclosures to ensure it is consistent with the guidance in PS 3280.

Significant findings

- Our auditor's report includes additional paragraphs to highlight that the comparative figures for 2022 have been restated with the adjustments related to the adoption of the PS 3280 accounting standard.
- We noted that management did not adjust asset retirement obligations for accretion or other changes in the liability. We recommend, for future financial reporting periods, that management develop an internal reporting process to re-assess the liability amount and record related accretion or increase in the liability.

Audit findings - Areas of audit focus (continued)

Area of audit focus – Revenue and receivables, unearned and deferred revenues

- 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; these include the Classroom Enhancement Funds. The special purpose grants are recorded as deferred revenue on receipt and recognized as revenue as eligible expenditures are incurred consistent with the funding's specified purpose.
- Unearned revenue includes tuition fees for programs to be delivered in future periods and receipt of proceeds for services or products to be delivered in a future period. Revenue is recognized when the courses, services or products are provided.
- In fiscal 2023, the School District recognized total revenue of $12.6 million of which $11.4 million relates to grants from the Ministry of Education.
- As at June 30, 2023, the School District recognized a liability of $400,000 (2022 - $352,000) for unspent special purpose funds, including $280,000 million of school generated funds (2022 - $285,000).

Our response

- We obtained an understanding of the process activities and controls over over the initiation, authorization, processing and recording revenue, deferred revenue, and unearned revenue.
- We obtained a confirmation from the Ministry for the funding provided in the 2023 fiscal year and agreed the operating grants to the amount of revenue recognized.
- We reviewed management's reconciliation of the special purpose funding recorded in deferred revenue to the confirmation received from the Ministry.

Significant findings

There were no issues noted in our audit procedures.

Audit findings - Areas of audit focus (continued)

Area of audit focus – Tangible capital assets and deferred capital revenue

- The School District has various capital projects ongoing throughout the year. The School District defers restricted contributions received for the acquisition of tangible capital assets. Once spent, the contributions are amortized into revenue over the life of the corresponding asset acquired. Revenue recognized for deferred capital contributions totaled approximately $734,000 for the year (2022 - $587,000).
- In the 2023 fiscal year, the School District incurred $3.7 million (2022 - $4.8 million) in tangible capital asset additions. Capital expenditures incurred in the year included Nakusp childcare facility and school bus acquisitions.

Our response

- We updated our understanding of the process activities and controls over tangible capital assets and deferred capital revenue, including the approval and related review processes for capital expenditures to ensure they are consistent with approved budgets and Ministry approvals.
- 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 analyzed amortization expense and amortization of deferred capital revenue to ensure the amount recognized uses the appropriate estimated useful lives of assets and is consistent between the two amortization accounts.
- We reviewed agreements for contractual commitments and related disclosure requirements.

Significant findings

There were no issues noted in our audit procedures.

Audit findings - Areas of audit focus (continued)

Area of audit focus – Accounts payable, accrued liabilities and expenses

The School District's expenses for the year totaled $12.4 million (2022 - $11.1 million), of which $9.0 million (2022 - $8.2 million) related to salaries and employee benefits, $2.4 million (2022 - $2.1 million) related to services and supplies expense and $933,000 (2022 - $772,000) related to asset amortization.

Our response

- We updated our understanding of the process activities and controls over expenses.
- 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 other substantive test of details over accrued liabilities as appropriate and we performed a search for unrecorded liabilities to obtain appropriate audit evidence over the completeness of accounts payable and accrued liabilities.
- We performed other substantive test of details over accrued liabilities as appropriate.

Significant findings

There were no issues noted in our audit procedures.

Audit findings - Areas of audit focus (continued)

Area of audit focus – Employee salaries and benefits

As noted in the previous slide, salaries and employee benefits and salaries are a significant portion of the School District's operations, comprising approximately 73% of total expenses ($9.0 million of $12.4 million).

The Ministry of Education and Child Care, on behalf of all School Districts in BC, engages an external actuary (Mercer) to determine the obligations and related costs for both vested and non-vested benefits, which include sick leave, retirement incentive, severance and vacation offered as part of the School District's collective agreements. As at June 30, 2023, the School District has recognized a liability for employee future benefits of $159,000 (2022 - $155,000).

Our response

- We updated our understanding of the process activities and controls over expenses, including salaries and benefits expense.
- We performed substantive 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.
- We obtained the valuation report for employee future benefits performed by Mercer as at March 31, 2023.

Significant findings

- There were no issues noted in our audit procedures.
- 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. We noted that the impact of the change in assumptions for the School District was approximately 1.6%-2.1%, and is not significant.

Audit quality: How do we deliver audit quality?

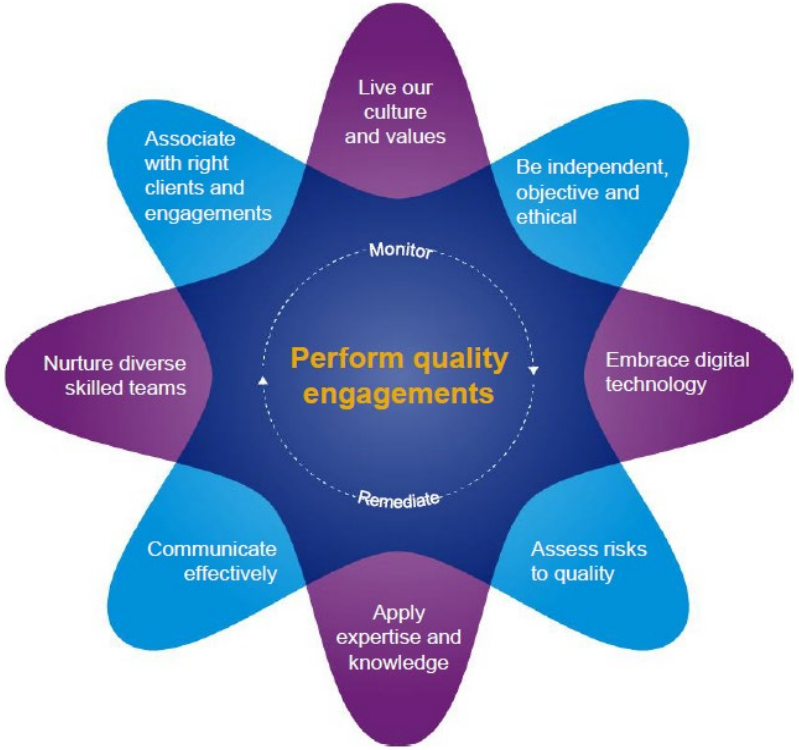
Quality essentially means doing the right thing and remains our highest priority. Our **Global Quality Framework** outlines how we deliver quality and how every partner and staff member contribute to its delivery.

'Perform quality engagements' sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.

We define '**audit quality**' as being the outcome when:

- audits are **executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls;** and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics** and **integrity.**



Doing the right thing. Always.

Appendices

1. Other required communications
2. Management representation letter
3. Thought leadership and insights

Appendix 1: Other required communications

Draft auditor’s report

Our draft auditor’s report is attached to the draft financial statements.

Management representation letter

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

Independence

In accordance with professional standards, we have confirmed our independence in connection with our Audit Planning and Findings Report.

Appendix 2: Management representation letter

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

September 26, 2023

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, 2023.

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 July 4, 2023, 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.

16) The Entity’s asset retirement obligations liability as at June 30, 2023 is a reasonable approximation of the Entity’s asset retirement obligation and no accretion expense was required for the 2023 fiscal year.

Going concern:

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

18) 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:

19) 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:

20) 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).

21) 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:

22) 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: Thought leadership and insights

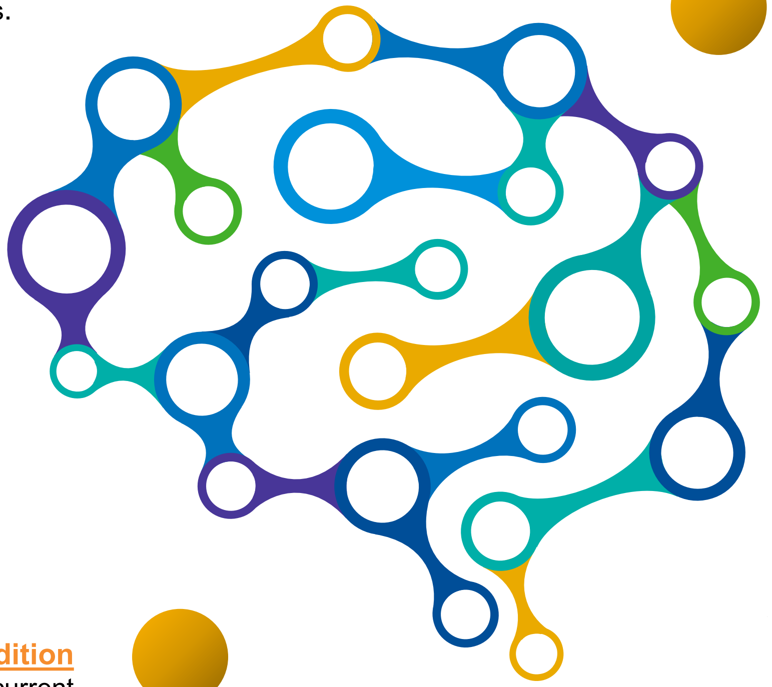
Our latest thinking on the issues that matter most to Audit Committees, board of directors and management.

KPMG Audit & Assurance Insights
Curated research and insights for audit committees and boards.

Board Leadership Centre
Leading insights to help board members maximize boardroom opportunities

Current Developments
Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.

Audit Committee Guide – Canadian Edition
A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada.



Accelerate 2023
The key issues driving the audit committee agenda in 2023.

Momentum
A quarterly newsletter with the latest thought-leadership from KPMG's subject matter leaders across Canada and valuable audit resources for clients.

KPMG Climate Change Financial Reporting Resource Centre
Our climate change resource centre provides insights to help you identify the potential financial statement impacts to your business.

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