

# School District No. 63 (Saanich)

Audit Findings Report for the year ended  
June 30, 2020

*KPMG LLP*

For meeting on September 8, 2020

[kpmg.ca/audit](https://kpmg.ca/audit)

**KPMG**



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# Executive summary



## Purpose of this report\*

The purpose of this Audit Findings Report is to assist you, as a member of the Finance, Facilities and Technology Committee of the Board of Education (“Finance Committee”), in your review of the results of our audit of the financial statements of School District No. 63 (Saanich) (the “District”) as at and for the year ended June 30<sup>th</sup>, 2020.

This Audit Findings Report builds on the Audit Plan we presented to the Finance Committee.



## Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.



## Finalizing the Audit

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing our discussions with the Finance Committee
- Obtaining evidence of the Board’s approval of the financial statements
- Obtaining the signed management representation letter
- 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 Finance Committee, and not solely the Chair (as required by professional standards), on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors’ report will be dated upon the completion of any remaining procedures.

\*This Audit Findings Report should not be used for any other purpose or by anyone other than the Finance, Facilities and Technology Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings 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.



# Executive summary



## Audit risks and results

We discussed with you at the start of the audit a number of significant financial reporting risks. These risks have been addressed in our audit.

We also discussed with you some other areas of audit focus. We have no significant matters to report to the Finance Committee in respect of them.

See pages 4-8.



## Critical accounting estimates

Overall, we are satisfied with the reasonability of critical accounting estimates.

The critical areas of estimates relate to: impairment of assets, rates for amortization and employee future benefits.



## 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.



# Executive summary



## Adjustments and differences

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

We identified two adjustments impacting annual surplus and two disclosure adjustments that remain uncorrected. These uncorrected differences are not considered material to the financial statements as a whole and did not impact our ability to issue an unqualified audit opinion on the financial statements.

The management representation letter in Appendix 3 includes all adjustments identified as a result of the audit.



## Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in Internal Control over Financial Reporting



## Independence

As required by professional standards, we have considered all relationships between KPMG and the District that may have a bearing on independence. We confirm that we are independent with respect to the 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, 2018 up to the date of this report.







# Audit risks and results

We highlight our significant findings in respect of significant financial reporting risks as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified.

## Significant financial reporting risks

Fraud risk from management override of controls

## Our response and significant findings

- 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 estimates and evaluating the business rationale of significant unusual transactions.
- We noted no issues or concerns arising from these procedures.



# COVID-19 – Audit and financial reporting considerations

Audit Considerations	Audit Implications
<b>Timing of the year-end audit work</b>	<ul style="list-style-type: none"><li>– KPMG performed the audit entirely remotely as part of the Canada’s efforts to “flatten the curve” and reduce the spread of the virus. We utilized technology as necessary to perform the engagement remotely and where necessary modified the audit approach to review primarily digital evidence.</li></ul>
<b>General considerations</b>	<ul style="list-style-type: none"><li>– We obtained an understanding of temporary changes to process activities and controls which have been implemented to ensure that our audit procedures are appropriate.</li></ul>
<b>Nature of operations</b>	<ul style="list-style-type: none"><li>– We performed additional audit testing to corroborate management’s assessment of the impact of COVID-19 on the District’s operations.</li><li>– Based on the testing noted above, we assessed the completeness and accuracy of disclosures included in the notes to the financial statements related to the impacts of COVID-19 on the District’s operations.</li></ul>
<b>Accounts receivable</b>	<ul style="list-style-type: none"><li>– We assessed collectability of accounts receivable which are comprised mostly of amounts owing from government sources.</li></ul>
<b>Accounts payable and accrued liabilities, and expenditures</b>	<ul style="list-style-type: none"><li>– Due to the potential for delays in receiving vendor invoices in the COVID-19 climate, we performed an enhanced review of management’s assessment and calculation of significant accruals.</li></ul>
<b>Deferred revenue</b>	<ul style="list-style-type: none"><li>– We considered changes in program delivery and timing and assessed the accuracy and completeness of deferred revenue reclassified to accounts payable for amounts that will no longer be recognized as revenue.</li></ul>
<b>Pension and post-employment benefits</b>	<ul style="list-style-type: none"><li>– We assessed changes to actuarial assumptions between the measurement date of March 31, 2020 used by the Ministry’s actuary and reporting date of June 30, 2020.</li></ul>
<b>Going concern</b>	<ul style="list-style-type: none"><li>– We assessed the District’s going concern assessment and did not identify material uncertainty in the ability to sustain operations for the 2020/2021 fiscal year. No emphasis of matter was considered necessary in the auditors’ report to not material uncertainty related to going concern.</li><li>– We noted no material errors related to the accuracy, presentation and disclosure of the impacts of COVID-19 to the District.</li></ul>





# Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

## Other area of focus

## Our response and significant findings

### Auditors' Opinion – Compliance Framework

- The financial statements are prepared under Canadian Public Sector Accounting (“PSA”) standards, supplemented by the requirements of Regulations 257/2010 and 198/2011 issued by the Province of British Columbia Treasury Board.
- These regulations direct the District to apply PSA, except in regard to accounting for restricted contributions. Under the regulations, capital contributions are to be 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 PSA.
- As a result, the 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.
- 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.
- Differences greater than OAG’s reporting threshold were reported with respect to restricted funding received from non-government sources.

### Tangible capital assets

- During the year, the District acquired \$6.97 million in tangible capital assets.
- Included in total additions are \$1.13 million related to portables including for the Sidney and Cordova Bay day care centres, \$1.11 million related to Keating seismic upgrades, \$1.13 million related to dust collectors at various schools and \$0.1 million related to Sidney playground upgrades. These projects were funded by a combination of new Ministry capital funding received in the current year and restricted unspent capital funds received in prior years.
- We performed testing over the existence and accuracy of capital asset purchases reported in the financial statements by agreeing sample of purchases to supporting invoices.
- A reasonability assessment of amortization expense recorded during the year based on estimated useful life of capital assets was performed.
- We reviewed agreements for contractual commitments and related disclosure requirements.
- No issues or adjustments were noted.





# Audit risks and results

## Other area of focus

## Our response and significant findings

### Employee future benefits and salaries

- The Ministry of Education, on behalf of all School Districts in BC, engages an external actuary 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 District's collective agreements.
- In the 2019 fiscal year, a full actuarial valuation of the obligation was performed. The June 30, 2020 liability was based on the valuation and extrapolation as of March 31, 2020. The full valuation occurs every three years.
- We assessed the competence, capabilities and objectivity of the actuary in performing the actuarial valuation and noted no issues.
- In the current year, we agreed the amounts disclosed in the notes to the financial statements to the actuarial extrapolation based on the March 31, 2020 valuation.
- The District's obligation is calculated annually at March 31 (early measurement date) by the actuary, Mercer, and is used as the basis for estimating the employee future benefit liability as at June 30, 2020. Public Sector Accounting Standards requires that any 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.
- Due to the impacts of COVID-19 and collective agreements being ratified after March 31, 2020, the external actuary noted that updated discount rate and salary increase assumptions to June 30, 2020 would increase the accrued benefit obligation by 3.5% to 5.5%. We calculated the potential maximum increase as approximately \$242,000. This difference only impacts disclosure in the notes to the financial statements and will not impact annual surplus until fiscal 2021.
- As such there is no impact to the net employee future benefit liability presented on the statement of financial position as at June 30, 2020. However, the notes to the financial statements have not been updated for the change in assumptions or presentation so an unadjusted disclosure difference is noted. This difference exists for many other school district in BC and the District's treatment is consistent with many others in the sector.





# Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

Other area of focus	Our response and significant findings
Classroom Enhancement Funds	<ul style="list-style-type: none"><li>• During the year, the District recognized Classroom Enhancement Funds (CEF) revenue of \$7.62 million. Of this amount, \$5.72 million related to staffing costs, \$0.92 million related to overhead costs, and \$0.97 million related to remedies. These funds are restricted for the purposes of implementing restored class size and composition limits.</li><li>• At year-end \$0.07 million has been accrued relating to current year deficits in remedies which will be funded by the Ministry.</li><li>• We agreed the amount of funds received to the confirmation letter from the Ministry.</li><li>• We tested the receipt and use of Classroom Enhancement Funds to determine if revenue collected was accurate and has been used for its intended purpose based on funding restrictions.</li><li>• During the year, the District spent \$7.62 million of the grant and \$0.04 million of CEF staffing funds are unspent at June 30, 2020. We noted the amounts have been correctly classified as Special Purpose Funds and deferred according to the Ministry's guidelines.</li><li>• KPMG obtained an understanding of the process which the District used to determine extra costs relating to CEF staffing and overhead.</li><li>• KPMG tested the assumptions related to each input used for the District's submission of forecasted costs to the Ministry for reasonability such as average teacher salary and benefit costs.</li><li>• No issues were noted.</li></ul>
Procurement	<ul style="list-style-type: none"><li>• We performed analytical procedures on non-payroll expenditures as compared to the amended budget.</li><li>• We reviewed the policy for reimbursement of personal expenses on official District business and selected a sample of 3 management and 2 board member expense reimbursement claims to determine if the expenses had a legitimate business purpose and were appropriately approved in accordance with the District's policy prior to payment.</li><li>• For the samples selected, we inspected the reimbursement form and supporting receipts to determine if the expenses claimed were within the policy and the reimbursements were appropriately authorized.</li><li>• No issues were noted.</li></ul>



# Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

## Other area of focus

Business Company and Subsidiaries

## Our response and significant findings

- The School District holds the only shares issued of School District No. 63 Business Company. Financial operations and results of the Business Company and subsidiaries are reported as revenue and expense of the Special Purpose Funds. During the 2020 fiscal year, revenue of \$9,866 and expenses of \$30,029 were reported.
- At June 30, 2020, the Business Company owes the District \$120,000 for a loan and \$7,065 in interest payable.
- KPMG performs audits and issues an opinion on the accuracy of financial results of the 3 business companies.
- We inspected the consolidation entries and noted that the results of the subsidiaries have been appropriately reported in the District.
- Audit adjustments relating to accrued liabilities, interest receivable and prepaid expenses were identified in the business company financial statements. Audit adjustments were not recommended in the District's financial statement because the amounts impacted are below the audit misstatement posting threshold of the District.





# Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Entity's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter.

We also highlight the following:

## Form, arrangement, and content of the financial statements

Adequate

## Application of accounting pronouncements issued but not yet effective

### Asset Retirement Obligations

- A new standard has been approved that 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 would 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 would 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 would be added to the historical cost of the asset and amortized over its useful life.
- The Ministry requested a preliminary estimate of asset retirement obligations for all School Districts in BC be submitted in July 2020. The District's has provided this estimate should continue to be refine it before the adoption date 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;
  - refine estimates related to remediation, discount rate and inflation rate as significant inputs onto the overall liability valuation.

# Adjustments and differences



**Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.**

Professional standards require that we request of management and the Finance Committee that all identified adjustments or differences be corrected. We have already made this request of management.

## Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

## Uncorrected differences

### Accumulated surplus differences

1. Consistent with previous years, a timing difference exists related to the amortization of capital assets and capital contributions beginning the year after assets are placed into service rather than at the time they are placed in service, as a result of using the Ministry’s tool for calculating amortization expense. The timing difference results in an overstatement of surplus in the capital fund of approximately \$246,409 and an overstatement of accumulated surplus of approximately \$207,411. These amounts are not considered material to the financial statements.
2. Beginning in 2019/20, the portion of the benefit surplus attributable to the employee’s share of benefit costs is no longer included in the asset recorded. As this change was made on a prospective basis (and not retroactively), a timing difference resulted related to the \$205,209 asset recorded in the prior year that was attributed to the employee’s share of the June 30, 2019 surplus balance, however, the closing balance at June 30, 2020 is now correct.

### Disclosure and presentation differences

1. Due to the impacts of COVID-19 and collective agreements being ratified after March 31, 2020, the external actuary noted that updated discount rate and salary increase assumptions to June 30, 2020 would increase the accrued benefit obligation by 3.5% to 5.5%. We calculated the potential maximum increase as \$242,000. This difference only impacts disclosure in the notes to the financial statements and will not impact annual surplus until fiscal 2021.
2. Public Sector Accounting Standards requires the statement of operations and statement of changes in net debt present a comparison of the results for the accounting period with those originally planned. Management presented the Amended Annual Budget as the basis for this comparison. The original annual budget has been included in the notes to the financial statements, which provides information related to the differences between the original and amended budget. It is expected that the budget figures may change significantly between the original and amended budget as enrollment figures and Ministry funding is confirmed. The presentation difference is not considered material to the financial statements given that the original annual budget information is provided in the notes to the financial statements.

The presentation adopted by the District is consistent with many other Districts throughout the Province.





# Selected financial information

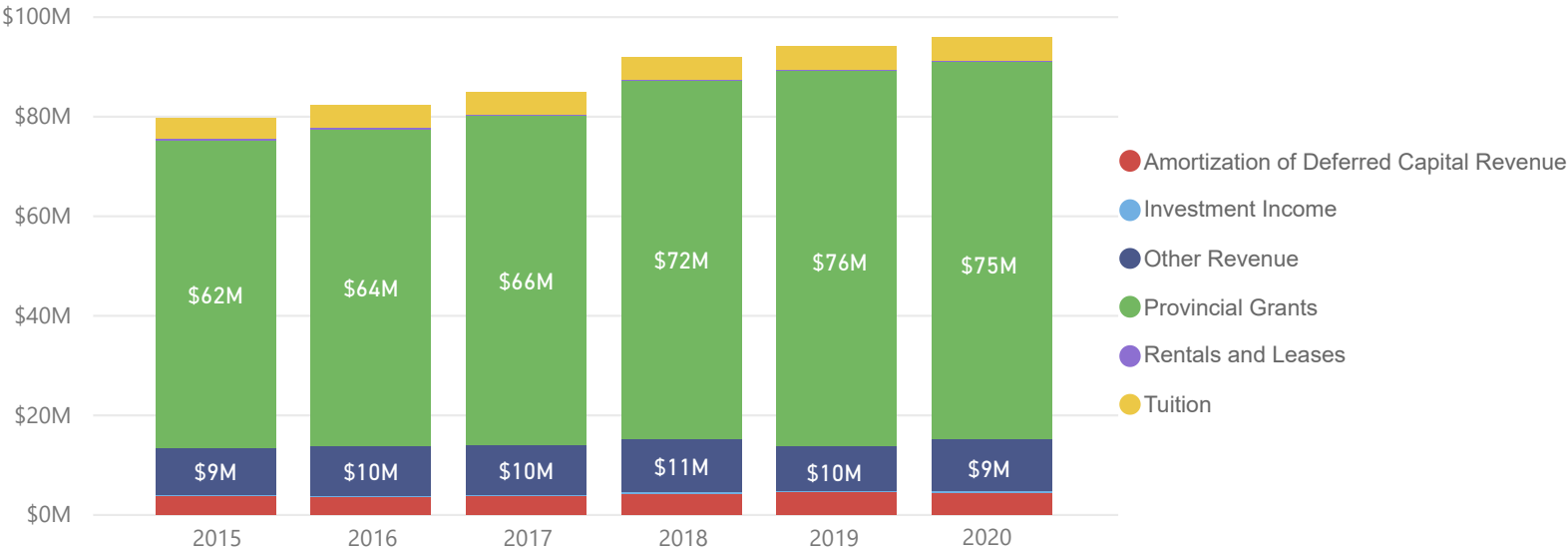
As part of the audit, there are certain key ratios and trends that we review. We share these ratios with the Board and welcome any questions related to our interpretation of trends.

*Note: the following financial information is taken from the annual audited financial statements prepared in accordance with Public Sector Accounting Standards and Treasury Board Regulations. The provincial averages are taken from data reported to the BC Government and is available to the public on the Ministry of Education financial reporting website. At the time of issuance of this report, the provincial data for fiscal 2020 was not yet available, as such all charts comparing the district and the provincial average are based on fiscal 2019 data. They have been included for comparative purposes.*

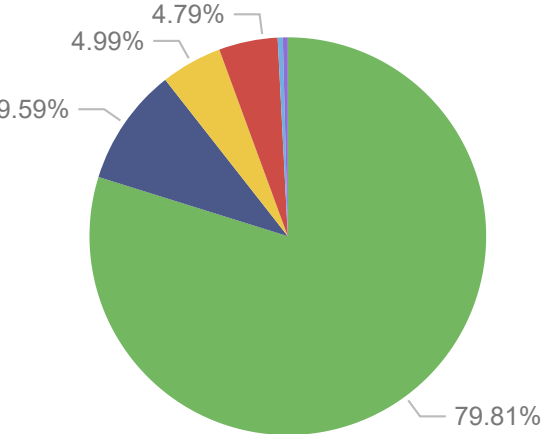
# Revenue Analysis



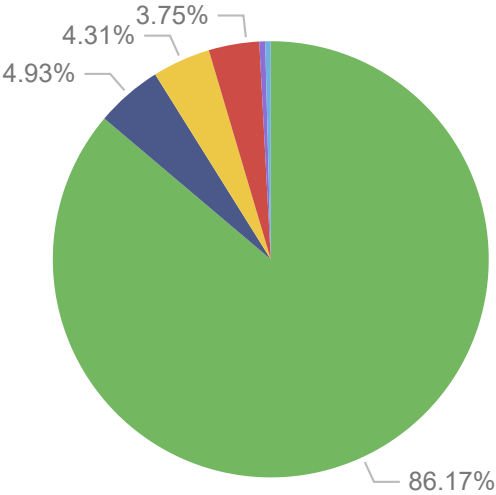
Revenue by Category (SD 63 (Saanich))



Proportional Revenue by Source 2020 (SD 63 (Saanich))



Proportional Revenue by Source - Peer Group Average 2019



Peer Group

- 71 Comox Valley
- 79 Cowichan Valley
- 61 Greater Victoria
- 68 Nanaimo-Ladysmith
- 63 Saanich
- 62 Sooke

Total current year revenues decreased by 1.88% as compared to prior year with provincial grant revenue decreasing 0.74% and tuition revenue decreasing 0.17%. The decrease in operating grant revenue in the current year is reflective of the reduction in grants during the job action offset by the increases in enrollment.

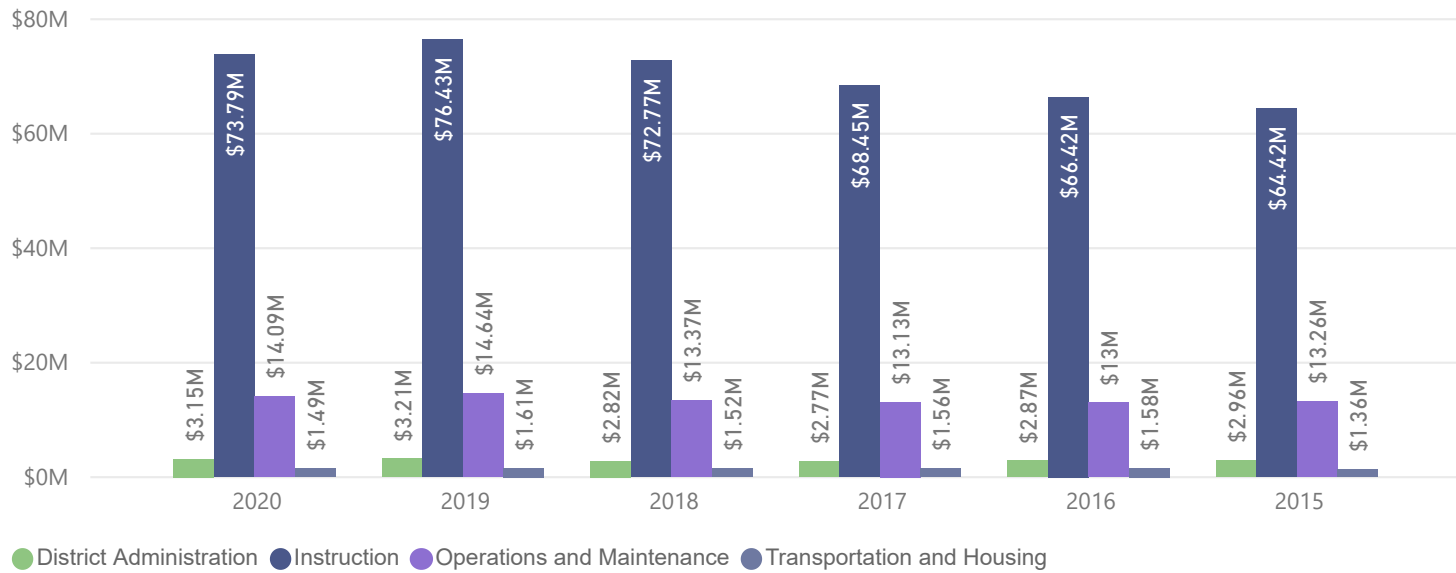
Tuition revenues have decreased in the current year as some international students were unable to participate in classes over the final 3 months of the school year due to the COVID-19 Pandemic.

The proportionate composition of the School District's revenue compared to other School Districts on Vancouver Island indicates the District has a higher proportion of other revenue, which reflects the higher number of international students relative to the selected comparatives.

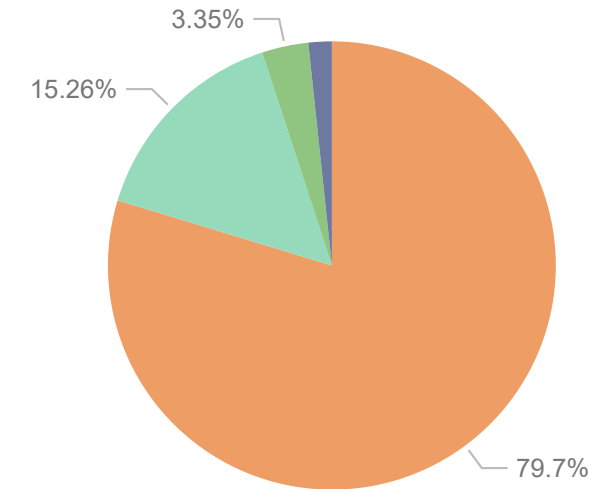
# Expense by Function Analysis



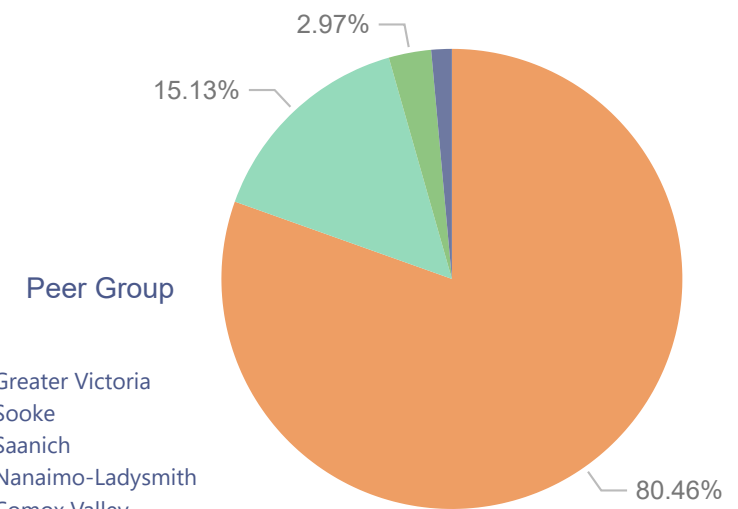
Expense by Function



Proportional Expense by Source 2020 (SD 63 (Saanich))



Proportional Expense by Source - Peer Group Average 2019



Peer Group

- 61 Greater Victoria
- 62 Sooke
- 63 Saanich
- 68 Nanaimo-Ladysmith
- 71 Comox Valley
- 79 Cowichan Valley

Instruction expenses represent the largest portion of expenses by function, representing 79.75% of total expenses in 2020. Instruction expenses are closely related to enrollment numbers the year to year increase reflects growth in students as well as increases from collective agreements.

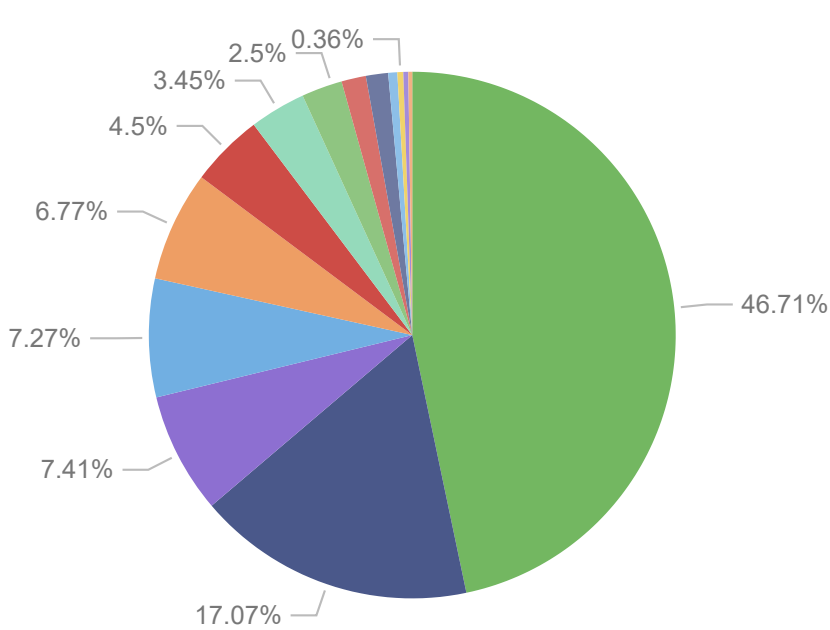
Operations & Maintenance represent the second largest expense to the School District comprising approximately 15.23% of total expenses. District Administration represents 3.41% of the School District's operating expenditures which has remained at a consistent level over the past 5 years.

The proportionate composition of the School District's expenses by function is consistent with that of the selected comparatives.

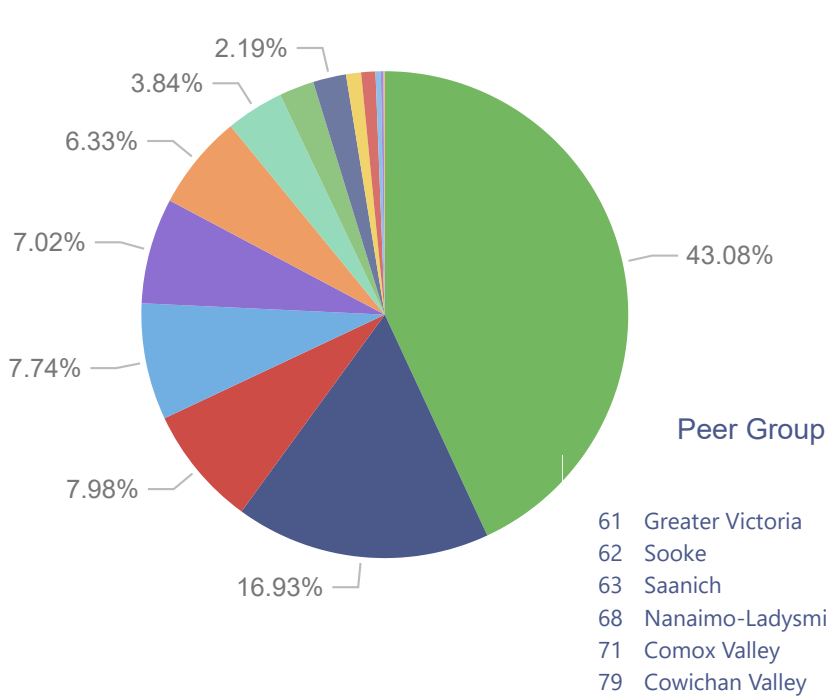
# Expense by Object Analysis



Proportional Expense by Object 2020 (SD 63 (Saanich))

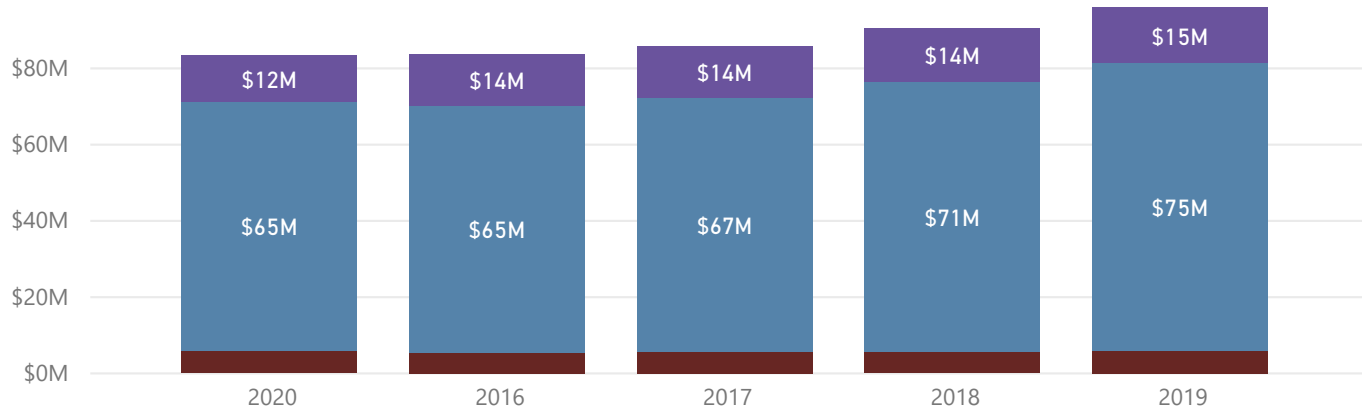


Proportional Expense by Object - Peer Group Average 2019



- Teachers Salaries - Operating
- Employee Benefits - Operating
- Teachers Salaries - Special Purpose
- Educational Assistants Salaries - Operating
- Principals & VP Salaries - Operating
- Support Staff Salaries - Operating
- Substitutes Salaries - Operating
- Employee Benefits - Special Purpose
- Substitutes Salaries - Special Purpose
- Other Professional Salaries - Operating
- Support Staff Salaries - Special Purpose
- Educational Assistants Salaries - Special Purpose
- Principals & VP Salaries - Special Purpose
- Other Professional Salaries - Special Purpose

Expense by Object



Total expenses have grown steadily from 2016 to 2019 with a slight decline in 2020 due to cost savings from and budget controls during the COVID-19 Pandemic. Salaries & benefits represent 80.27% of total expenses in 2020.

Other expenses such as services & supplies and amortization represent approximately 19.63% of the School District's expenses and have remained relatively consistent when compared to the increase in enrollment.

The proportionate composition of the School District's expenses by object is consistent with that of the selected comparatives.

# Student Enrollment Analysis



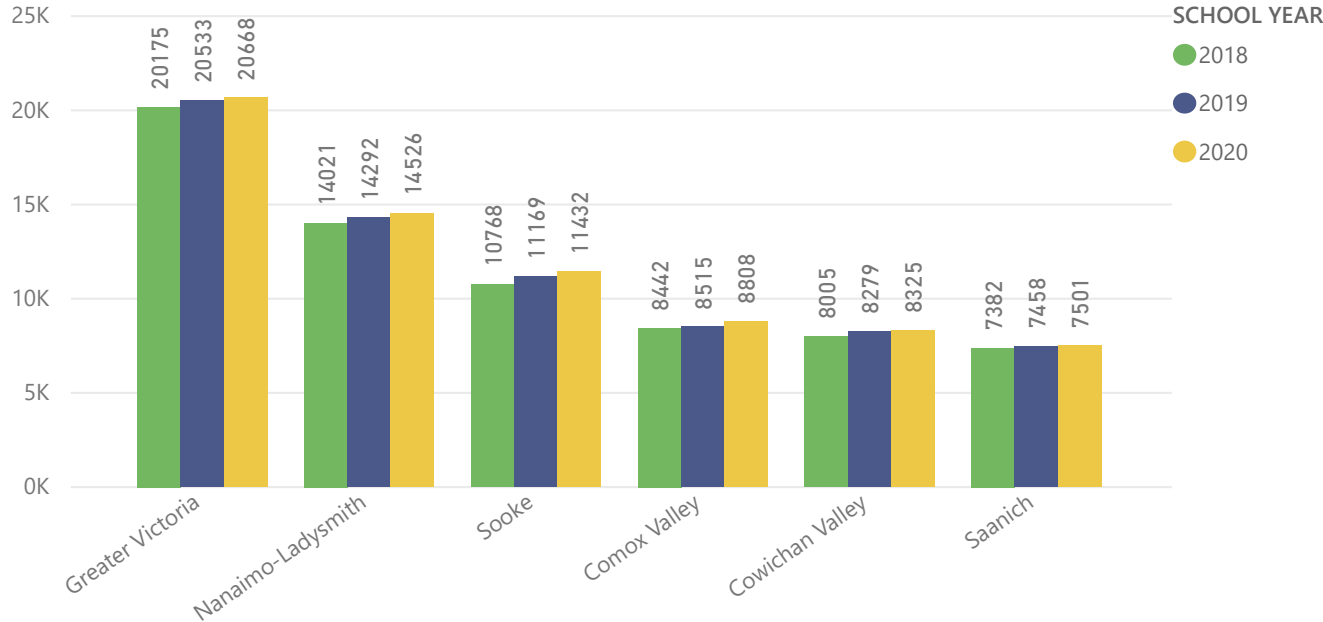
## School District No. 63 (Saanich)

2020 FTE Equivalents      2020 FTE Growth  
 7,501                              5.77%

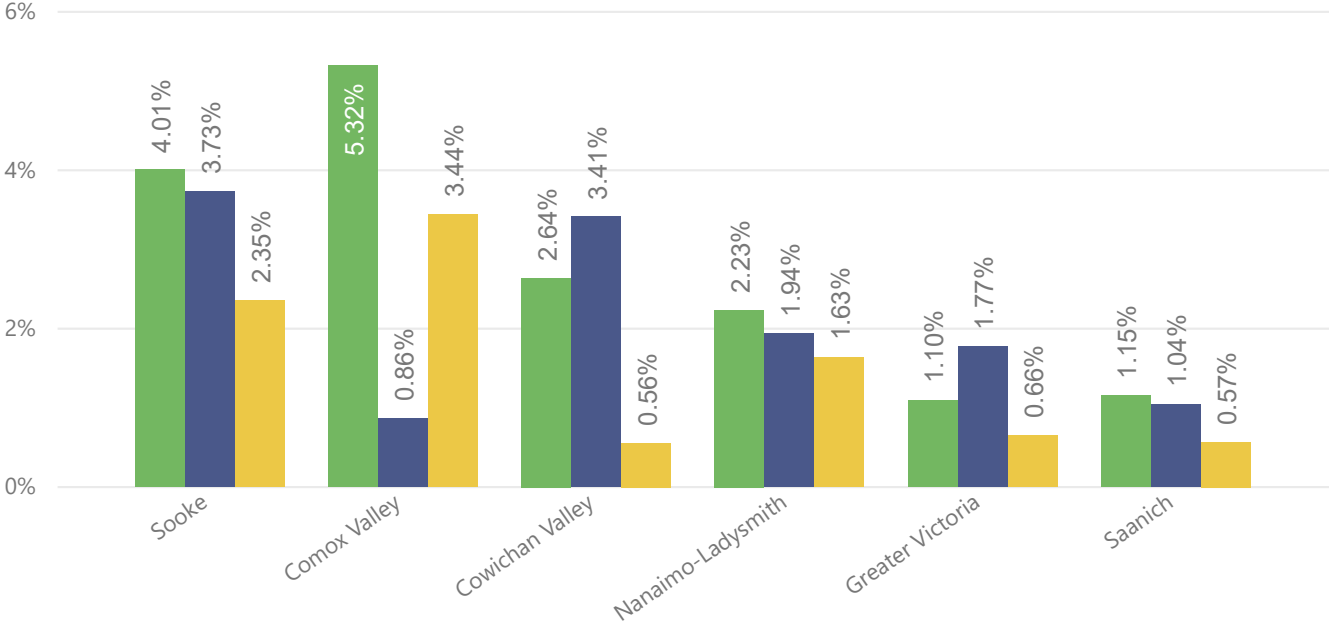
Student Enrollment FTE's & Growth of Students FTE - In the student enrollment FTE graph, we observe student counts have increased by 119 students over the last 3 years with 43 of those students added in fiscal 2020.

When compared against districts with similar FTE numbers, all districts are experiencing increasing enrollment.

Student Enrollment FTEs



Growth of Student FTEs

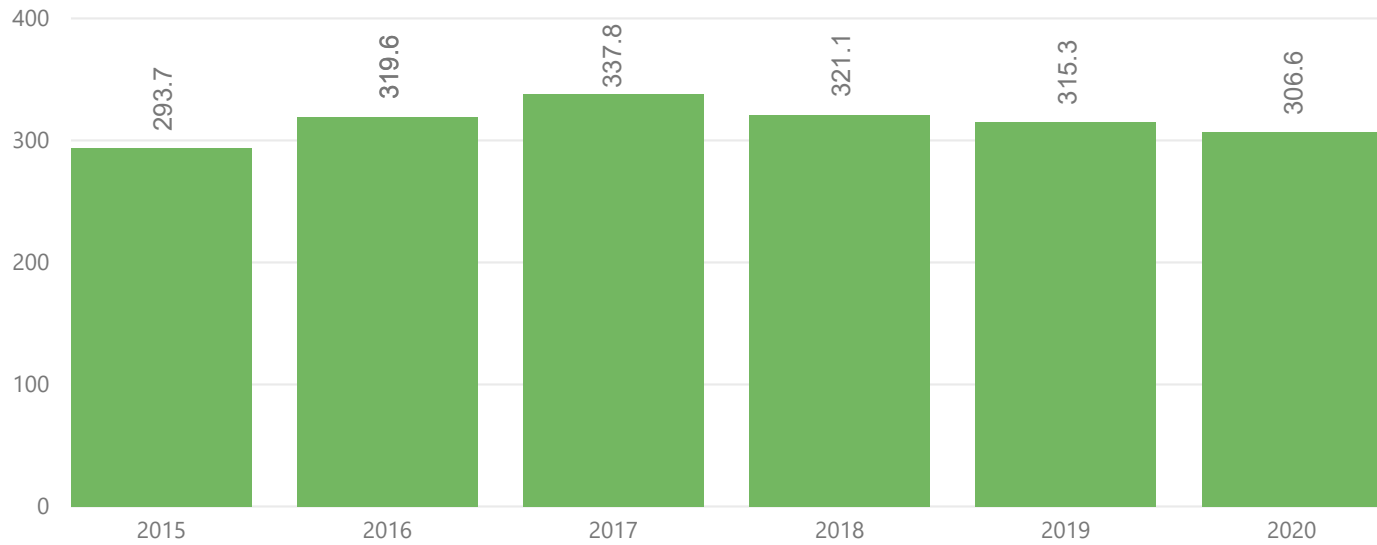




# International Enrollment Analysis



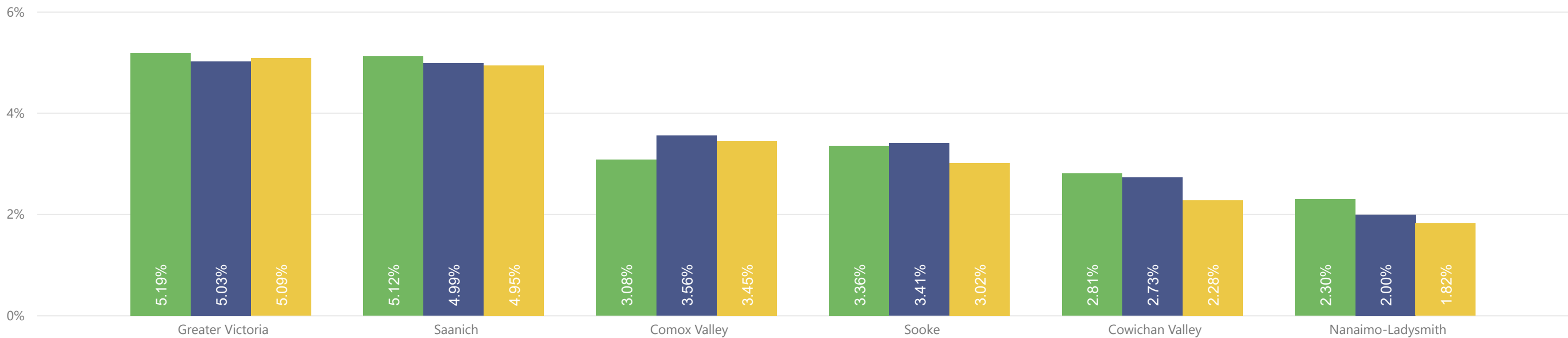
International Student FTE - School District No 63 (Saanich)



International student education revenue is one of District's main sources of non-government income. Consistent with the majority of other school districts presented, Saanich has seen a slight decrease in the number of international students enrolled in fiscal 2019 and 2020.

As a percentage of international students to total students, the District has a larger portion of international students than most comparatively sized districts based on fiscal 2019 figures.

International Student FTE as a Percentage of FTE Enrollment



# Annual Surplus and Accumulated Surplus Analysis



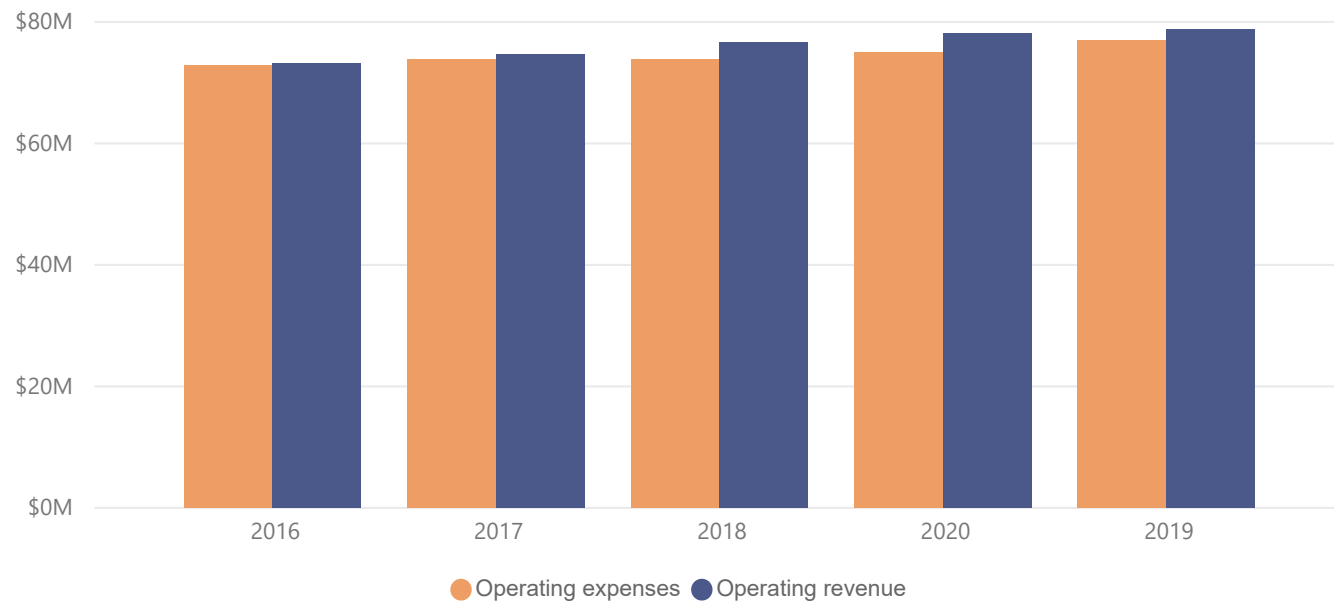
## School District No. 63 (Saanich)

Surplus/Deficit- operating fund	Accumulated surplus- capital fund	Accumulated surplus- operating fund	Unrestricted operating surplus
3,206,964	27,785,801	6,678,078	-

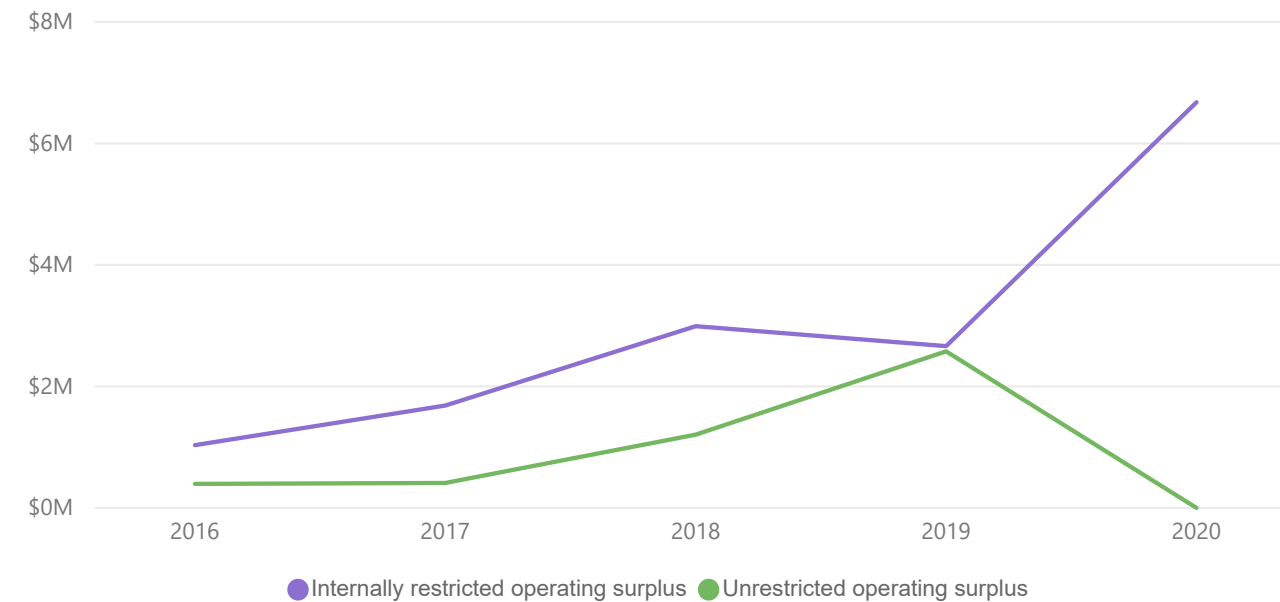
Over the last 5 years as presented, the District has reported increasing revenue and expenses, except for a slight decrease in 2020 primarily due to the COVID-19 Pandemic. The operating surplus has been increasing, consistent with implementation of the District's policy to establish a small contingency within the internally restricted operating fund surplus.

In the current year the annual operating surplus is \$3.2M, all of which is restricted for school activities, district activities and appropriated for the 2020/21 budget.

Annual Surplus



Accumulated Surplus



# School Generated Funds

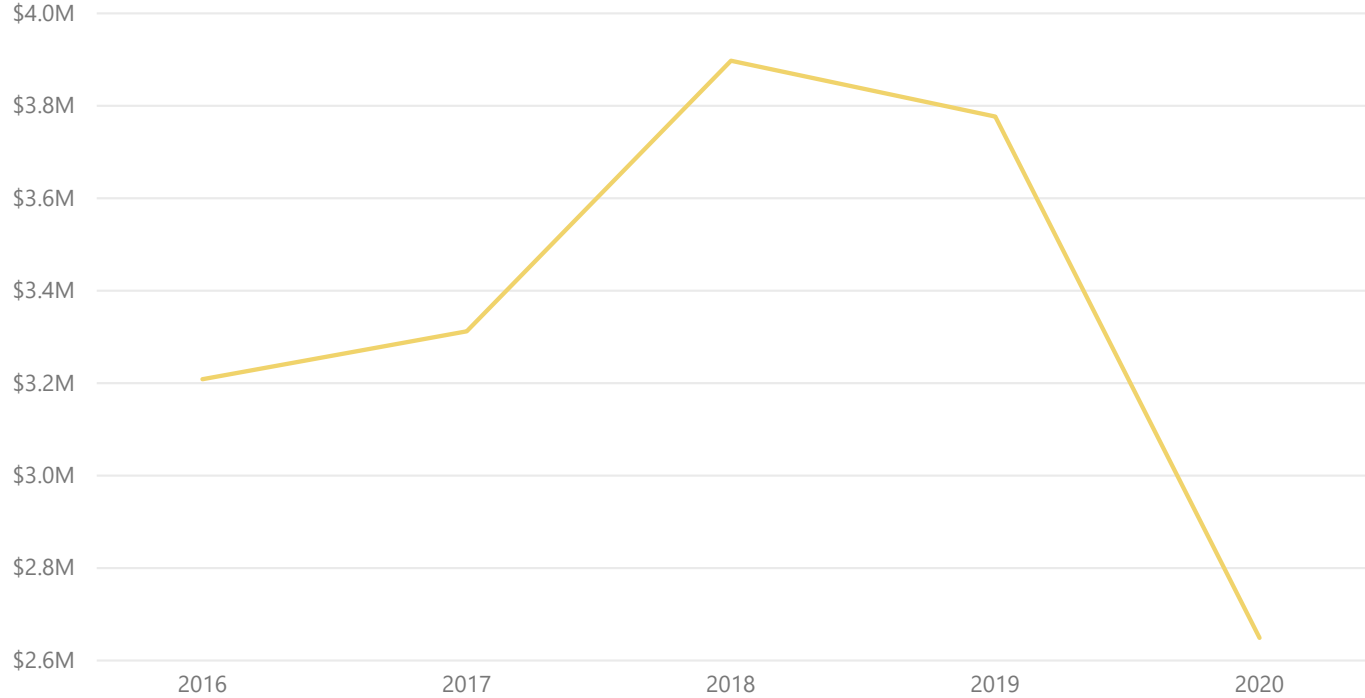


## School District No. 63 (Saanich)

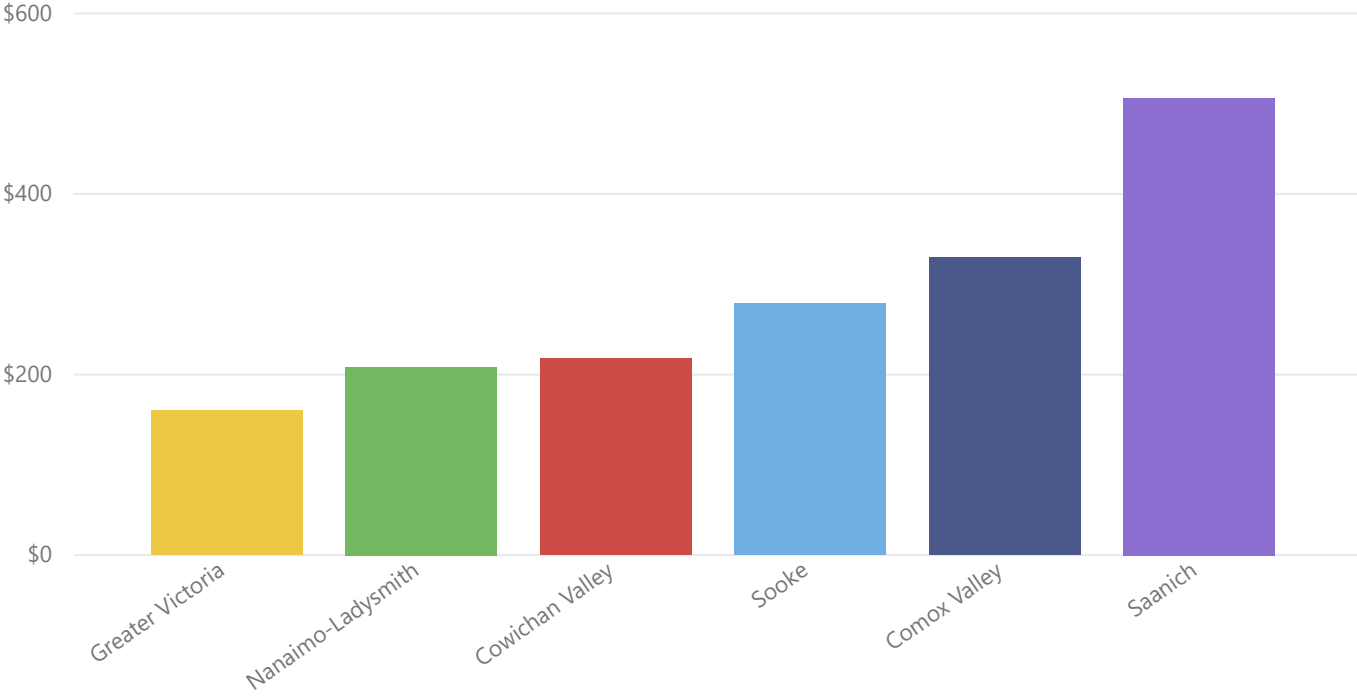
2020 School Generated Funds: 2,649,037  
 2020 Change in School Generated Funds: -29.86%

School generated funds per student represents monies generated by schools within the district on a per student student basis. The chart below shows that the district's schools generate a large amount of funds when compared with similarly sized districts. The district's balance per student is often related to the number and nature of programs offered. The balance decreased during the year to draw down existing balances and no new funds were collected during the COVID-19 Pandemic. The comparative data presented relates to fiscal 2019.

School Generated Funds



School Generated Funds per Student FTE 2019



# Student Enrollment Analysis



## School District No. 63 (Saanich)

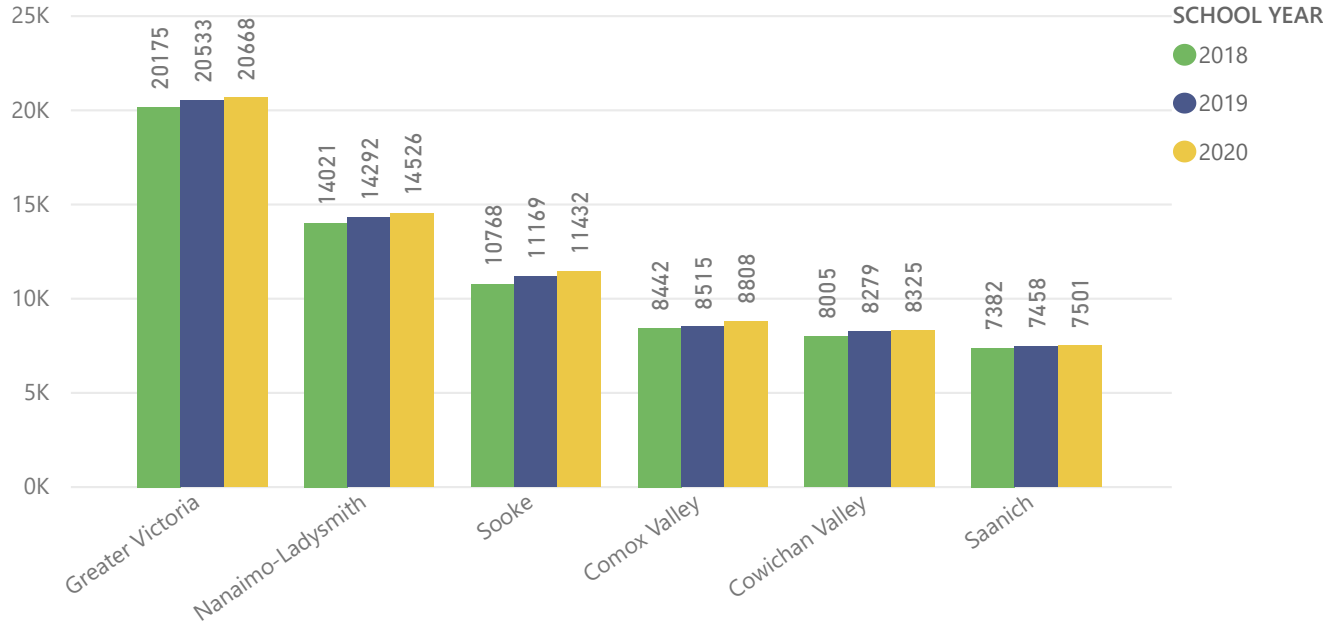
2020 FTE Equivalents  
7,501

2020 FTE Growth  
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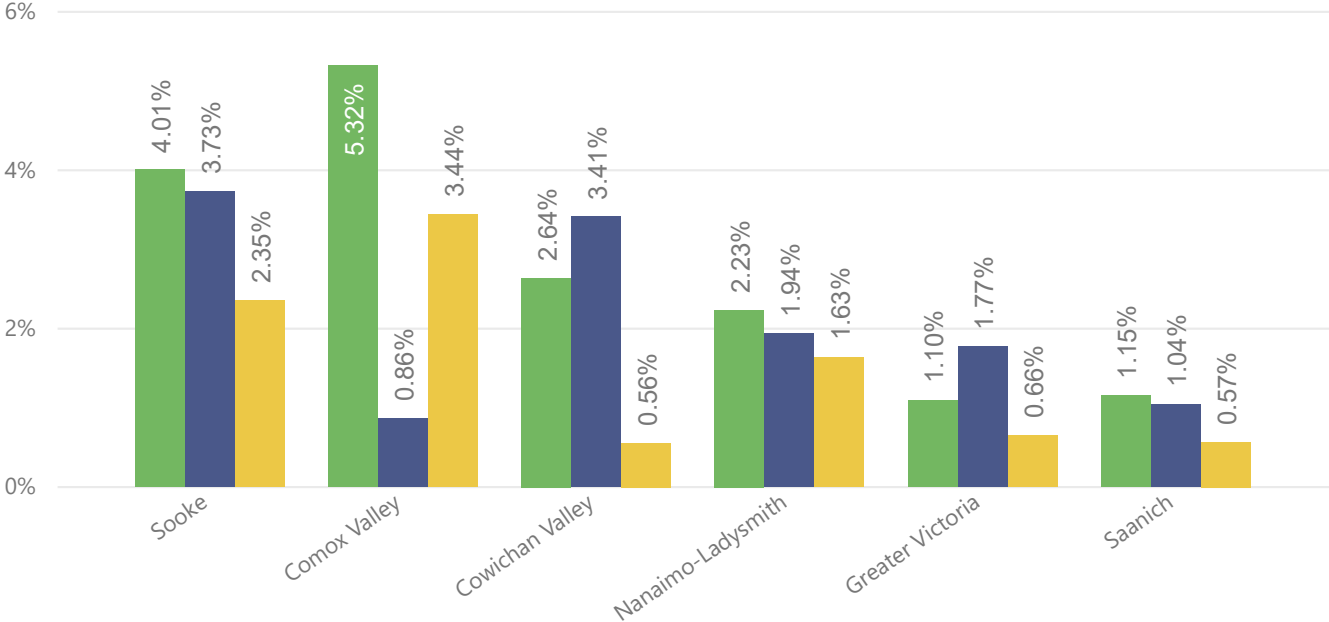
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Student Enrollment FTEs



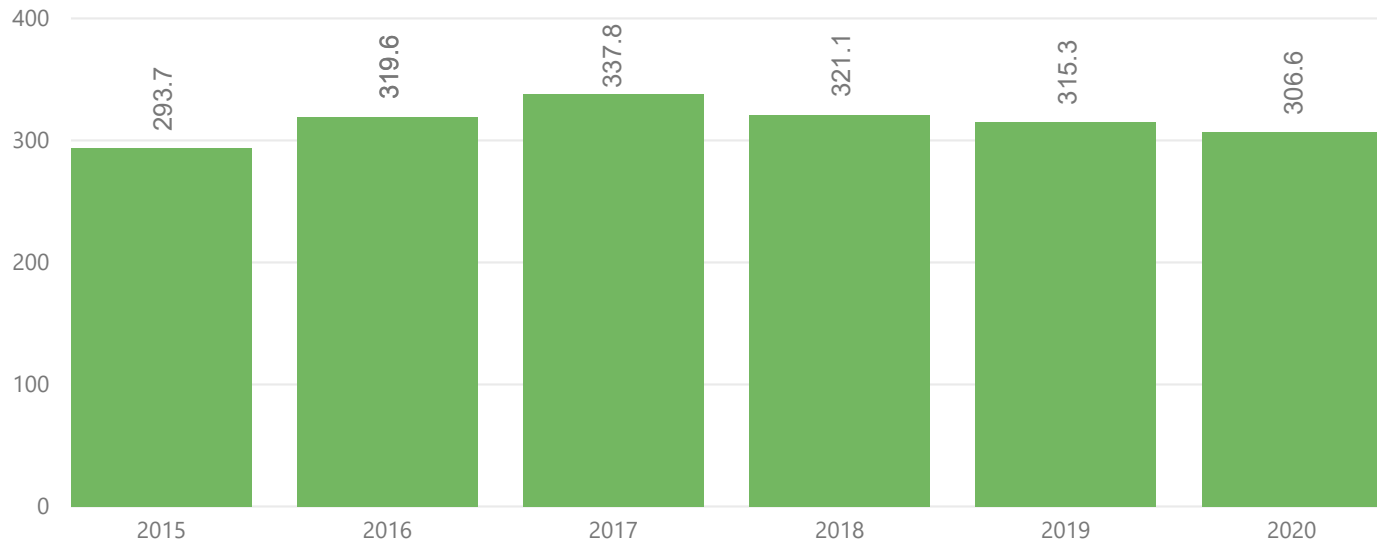
Growth of Student FTEs



# International Enrollment Analysis



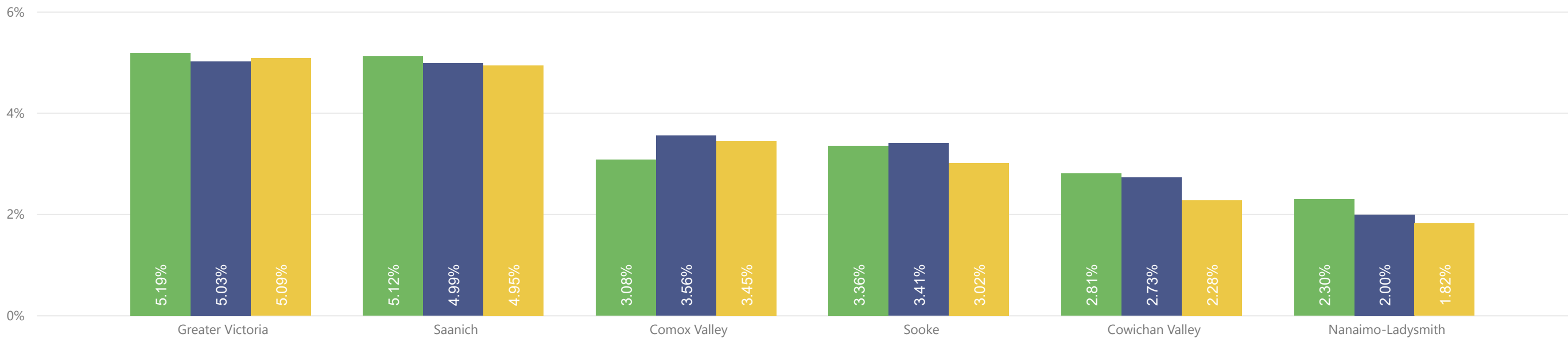
International Student FTE - School District No 63 (Saanich)



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International Student FTE as a Percentage of FTE Enrollment





# Annual Surplus and Accumulated Surplus Analysis



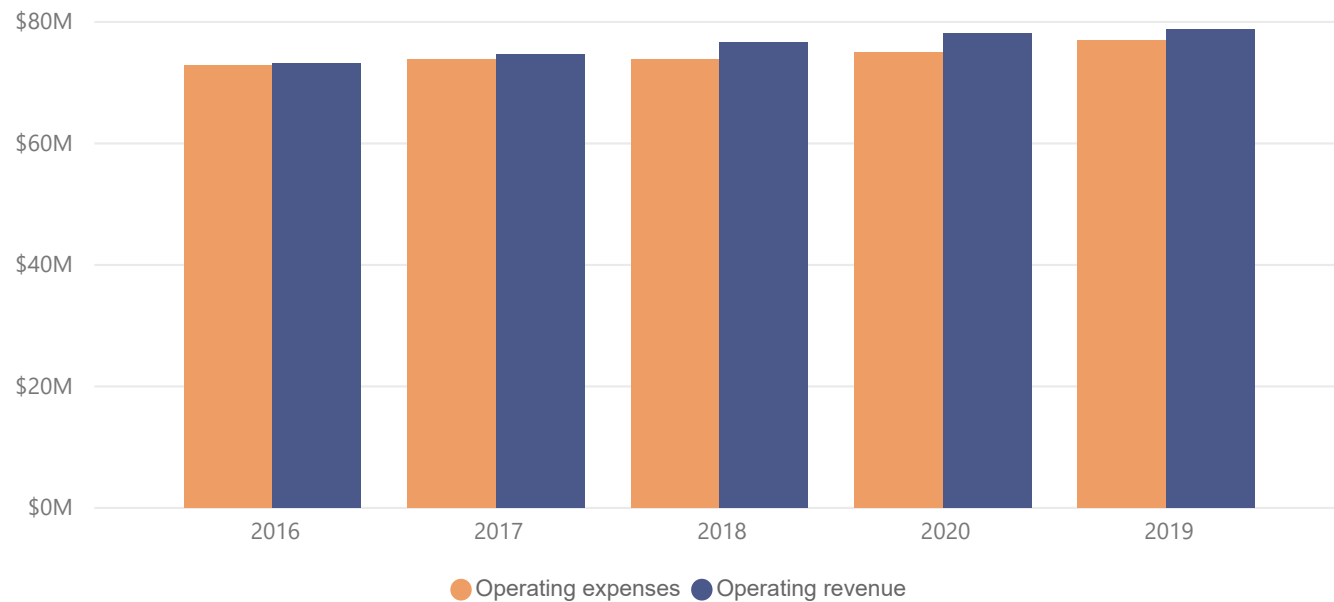
## School District No. 63 (Saanich)

Surplus/Deficit- operating fund	Accumulated surplus- capital fund	Accumulated surplus- operating fund	Unrestricted operating surplus
3,206,964	27,785,801	6,678,078	-

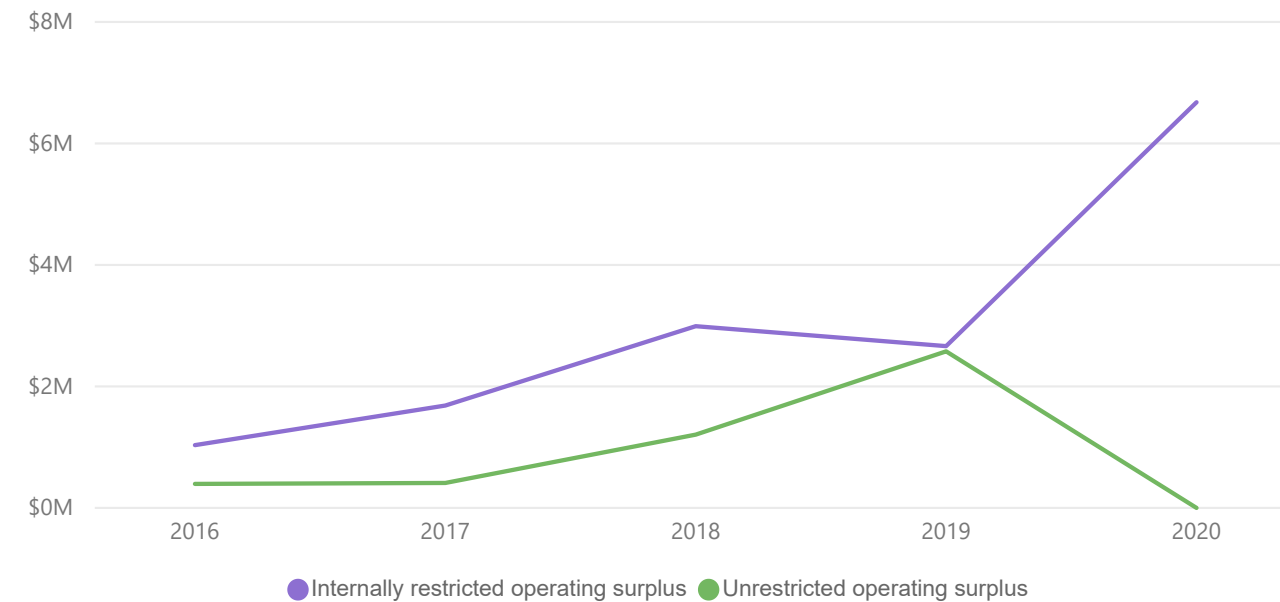
Over the last 5 years as presented, the District has reported increasing revenue and expenses, except for a slight decrease in 2020 primarily due to the COVID-19 Pandemic. The operating surplus has been increasing, consistent with implementation of the District's policy to establish a small contingency within the internally restricted operating fund surplus.

In the current year the annual operating surplus is \$3.2M, all of which is restricted for school activities, district activities and appropriated for the 2020/21 budget.

Annual Surplus








Accumulated Surplus





# Appendices

-  **Appendix 1: Required communications**
-  **Appendix 2: Auditors' Report**
-  **Appendix 3: Management Representation Letter**
-  **Appendix 4: Audit Quality and Risk Management**
-  **Appendix 5: Current Developments**

# Appendix 1: Required communications



In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:



## Auditors' report

The conclusion of our audit is set out in our draft auditors' report as attached.



## Management representation letter

In accordance with professional standards, copies of the management representation letter are provided to the Finance Committee. The management representation letter is attached.



## Engagement letter

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter and any subsequent amendment letters as provided by management.



# Appendix 2: Auditors' Report

To the Board of Education of School District No. 63 (Saanich), and

To the Minister of Education, Province of British Columbia

## **Opinion**

We have audited the consolidated financial statements of School District No. 63 (Saanich) (the Entity), which comprise:

- consolidated the statement of financial position as at June 30, 2020
- consolidated the statement of operations for the year then ended
- consolidated the statement of changes in net financial debt for the year then ended
- consolidated the statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

## **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Emphasis of Matter – Financial Reporting Framework**

We draw attention to note 2 to the financial statements which describes the applicable financial reporting framework and the significant differences between the financial reporting framework and Canadian public sector accounting standards.

Our opinion is not modified in respect of this matter.

## **Other Information**

Management is responsible for the other information. Other information comprises:

- Financial Statement Discussion & Analysis
- Unaudited Schedules 1-4 attached to the audited financial statements

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Information, other than the financial statements and the auditors' report thereon, included in the Financial Statement Discussion and Analysis and Unaudited Schedules documents as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of the financial statements in accordance with the financial reporting provisions of Section 23.1 of the Budget and Transparency and Accountability Act of the Province of British Columbia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.  
The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

# Appendix 3: Management Representation Letter

## Date of Approval of Consolidated Financial Statements

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. 63 ("the District") as at and for the period ended June 30, 2020.

### **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 May 29, 2017, including for:
  - a) the preparation of the financial statements and believe that these financial statements have been prepared and present fairly 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.

## **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
    - otherswhere 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.

## **ESTIMATES:**

- 8) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

## **EMPLOYEE FUTURE BENEFITS:**

- 9) The employee future benefits costs and obligations have been determined, accounted for and disclosed in accordance with the financial reporting framework.
- 10) 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.
- 11) 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 benefit costs and obligations and in making required disclosures in the above-named financial statements, in accordance with the relevant financial reporting framework.
- 12) The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.

**ENVIRONMENTAL MATTERS:**

- 13) The District has appropriately recognized, measured and disclosed liabilities for contaminated sites in the financial statements.

**GOING CONCERN:**

- 14) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.
- 15) 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.

**MISSTATEMENTS:**

- 16) The effects of the uncorrected misstatements described in **Attachment II** are immaterial, both individually and in the aggregate, to the financial statements as a whole.

**NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:**

- 17) 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).
- 18) 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:**

- 19) 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. 63 (SAANICH)

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By: Jason Reid, Secretary Treasurer

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By: Megan Cimaglia, Director of Finance

cc: Board of Trustees

## Attachment I – Definitions

### **MATERIALITY**

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, 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 the size or nature of a misstatement, or a combination of both.

### **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.

**Attachment II – Summary of Audit Misstatements Schedule**

**Summary of Corrected Misstatements**

No corrected misstatements identified.

**Summary of Uncorrected Misstatements**

			Surplus effect	Financial position		
Description	F/J/P	Fund	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Accumulated Surplus (Decrease) Increase
<b>For the year ending June 30, 2020</b>						
To record accumulated differences between the Ministry recommended amortization of capital assets and capital contributions and that calculated in accordance with Public Sector Accounting Standards.	J	Capital	(346,409)	(2,029,850)	(1,476,030)	(207,411)
<b>For the year ending June 30, 2019</b>						
To correct the prior year surplus relating to the employee portion of benefit premiums.	J	Operating	-	(205,219)	-	(205,219)

***Misstatements in presentation and disclosure***

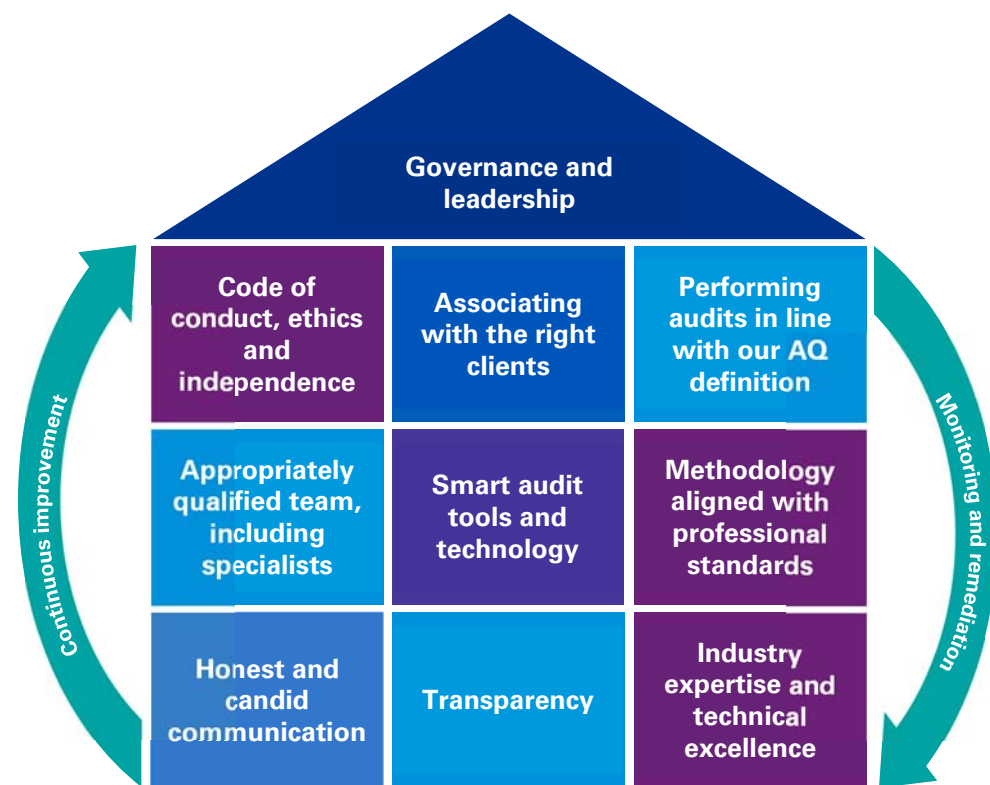
The Public Sector framework requires the statements of operations and statement of changes in net debt present a comparison of the results for the accounting period with those originally planned. Management presented the Amended Annual Budget as the basis for this comparison. The original annual budget has been included in the notes to the financial statements, which provides information related to the differences between the original and amended budget. It is expected that the budget figures may change significantly between the original and amended budget as enrollment figures and Ministry funding is confirmed.

Due to the impacts of COVID-19 and collective agreements being ratified after March 31, 2020, the external actuary noted that updated discount rate and salary increase assumptions to June 30, 2020 would increase the accrued benefit obligation by 3.5% to 5.5%. The potential maximum increase is \$242,000. This difference only impacts disclosure in the notes to the financial statements and will not impact annual surplus until fiscal 2021.

# Appendix 4: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarizes the key elements of our quality control system.



Audit Quality Framework

## What do we mean by audit quality?

Audit Quality (AQ) is at the core of everything we do at KPMG.

We believe that it is not just about reaching the right opinion, but how we reach that opinion.

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**.

Our AQ Framework summarises how we deliver AQ. Visit our [Audit Quality Resources page](#) for more information including access to our [Audit Quality and Transparency report](#).



# Appendix 5: Current developments

## Public Sector Accounting Standards

Standard	Summary and implications
Impact of COVID-19	<ul style="list-style-type: none"><li>– In response to the impact of COVID-19 on public sector entities, PSAB has approved deferral of all upcoming accounting standards by one year and will issue non-authoritative guidance on the effects of COVID-19.</li></ul>
Asset Retirement Obligations	<ul style="list-style-type: none"><li>– The new standard is effective for fiscal years beginning on or after April 1, 2022. The effective date was deferred by one year due to COVID-19.</li><li>– 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.</li><li>– 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.</li><li>– As a result of the new standard, the public sector entity will have to:<ul style="list-style-type: none"><li>• consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset;</li><li>• 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;</li><li>• 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.</li></ul></li></ul>
Revenue	<ul style="list-style-type: none"><li>– The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19.</li><li>– The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement.</li><li>– 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.</li><li>– 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.</li></ul>

# Appendix 5: Current developments (continued)

## Public Sector Accounting Standards

Standard	Summary and implications
Employee Future Benefit Obligations	<ul style="list-style-type: none"> <li>– PSAB has initiated a review of sections PS3250 <i>Retirement Benefits</i> and PS3255 <i>Post-Employment Benefits, Compensated Absences and Termination Benefits</i>. In July 2020, PSAB approved a revised project plan.</li> <li>– PSAB intends to use principles from International Public Sector Accounting Standard 39 <i>Employee Benefits</i> as a starting point to develop the Canadian standard.</li> <li>– 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.</li> </ul>
Public Private Partnerships (“P3”)	<ul style="list-style-type: none"> <li>– PSAB has proposed new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. PSAB is in the process of reviewing feedback provided by stakeholders on the exposure draft.</li> <li>– The exposure draft proposes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends.</li> <li>– The exposure draft proposes that the public sector entity recognize a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure.</li> <li>– The infrastructure would be valued at cost, with a liability of the same amount if one exists. Cost would be measured by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.</li> </ul>
International Strategy	<ul style="list-style-type: none"> <li>– PSAB has reviewed all proposed options for its international strategy, and in accordance with its due process, approved the option to adapt International Public Sector Accounting Standards when developing future standards. PSAB noted that the decision will apply to all projects beginning on or after April 1, 2021.</li> </ul>

# Current developments - Response to COVID-19 Pandemic

Resources	Summary	Links
<b>Resources for management and the Committee</b>	<p>Please visit our COVID-19 website for resources regarding the topics below. This site is being <u>updated daily</u> based on information being released by federal, provincial and municipal news releases.</p> <ul style="list-style-type: none"><li>- Business continuity guide</li><li>- Immediate actions to take</li><li>- Medium to long-term actions</li><li>- Tax considerations and a summary of federal and provincial programs</li><li>- Legal considerations</li><li>- Financial reporting and audit considerations</li><li>- Global perspectives</li></ul>	<a href="#">COVID-19 Alerts (Live Link)</a>
<b>Return to the workplace</b>	<p>As all levels of government begin to take steps toward re-opening the country and restarting our economy, planning for the return to a physical workplace is quickly becoming a top priority for many organizations. With the guidelines for the pandemic continuing to evolve daily, there are many considerations, stages and factors employers need to assess in order to properly develop a robust action plan which can ensure the health and safety of their workforce.</p> <p>We have put together a helpful <i>KPMG Return to the Workplace</i> guide to support an organization's planning efforts in preparing to return to physical workplace. Our guide includes a list of considerations, stages and factors that can help establish a robust action plan for your organization to safely return to work. The guide is supported by a dynamic playbook, which our team has developed to outline a comprehensive list of actions an organization can take, based on their unique situation and immediate needs.</p>	<a href="#">Website Link</a> <a href="#">Link to guide</a>



[kpmg.ca/audit](https://kpmg.ca/audit)



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