

School District No. 8 (Kootenay Lake)

For the year ended June 30, 2019

Report to the Finance and Operations Committee
Audit results

September 10, 2019

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Contents

Executive summary	1
Audit results	2
Adjustments and uncorrected misstatements	4
Other reportable matters	5

Appendices

Appendix A – Draft Independent auditor’s report
Appendix B – Draft Management representation letter
Appendix C – Internal control letter

Executive summary

Purpose of report and scope

The purpose of this report is to engage in an open dialogue with you regarding our audit of the financial statements of School District No. 8 (Kootenay Lake) (the "District") for the year ended June 30, 2019. This communication will assist the Finance and Operations Committee in understanding the results of audit procedures and includes comments on misstatements, significant accounting policies, sensitive estimates and other matters.

The information in this document is intended solely for the information and use of the Finance and Operations Committee, the Board of Education and management. It is not intended to be distributed or used by anyone other than these specified parties.

We were engaged to provide the following deliverables:

Deliverable	Status
Discussions and communications regarding planning	Completed on June 11, 2019
Independent Auditor's Report on the June 30, 2019 financial statements	Finalized after approval of the financial statements by the Board of Education and completion of our audit work
Communication of audit results	Within this report
Other – Reporting to the OAG	Completed after approval of the financial statements by the Board of Education

Independence

We confirm that there have been no changes to our status with respect to independence since we confirmed our independence to you on June 11, 2019.

Status of our audit

We have substantially completed our audit of the financial statements of the District and the results of that audit are included in this report.

We will finalize our report upon resolution of the following items that were outstanding as at September 10, 2019:

- Receipt of signed management representation letter (a draft has been attached in the appendices)
- Procedures regarding subsequent events
- Approval of the financial statements by the Finance and Operation Committee and the Board of Education

We have successfully executed our audit strategy in accordance with the plan presented to the Finance and Operations Committee on June 11, 2019.

Auditor's report modifications

Our responsibility is to form an opinion on the financial statements. We are also required to communicate matters that impact our standard auditor's report, including key audit matters or modifications to the reports.

Our auditor's report contained the following modifications:

- Emphasis of matter paragraph
- Other matter paragraph

A copy of our draft independent auditor's opinion is included in Appendix A.

Audit results

We highlight our significant findings in respect of transactions and other areas of focus.

Areas of focus

Area of focus	Matter	Our response and findings
Fraud risk from other revenue	There is a risk of fraud, which primarily relates to other revenue recognized from school-generated funds.	<ul style="list-style-type: none">• Our audit procedures include a review of a sample of bank reconciliations and a test of source documents for school generated revenues and expenses.• Our audit procedures did not uncover any significant findings to report.
Fraud risk from management override	Per the auditing standards, this is a presumed significant fraud risk which relates to the risk of management overriding controls through use of journal entries.	<ul style="list-style-type: none">• Our audit procedures include testing journal entries, testing and analysing significant accounting estimates and reviewing transactions outside the normal course of operations.• Our audit procedures did not uncover any significant findings to report.
Employee compensation	Employee compensation accruals or expenses could be understated.	<ul style="list-style-type: none">• Our audit procedures included reviewing controls around maintenance of employee Masterfile and related payroll transactions and performing test of details on a sample of employee compensation transactions.• Our audit procedures did not uncover any significant findings to report.
Grant revenues	Grant revenues are material and significant to the financial statements.	<ul style="list-style-type: none">• Our audit procedures included obtaining confirmation from the Ministry of Education of grants received and receivable.• Our audit procedures did not uncover any significant findings to report.

Area of focus	Matter	Our response and findings
Purchases and payables	Payables could be understated or not recorded in the proper period.	<ul style="list-style-type: none"> • Our audit procedures included performing a review of the controls around the purchasing cycle, performing analytical review of expense variances, performing tests of details on significant balances or unusual variances and performing substantive procedures on cut-off of expenses. • Our audit procedures did not uncover any significant findings to report.
Tangible capital assets and deferred capital contributions	Tangible capital assets activities could not be valid and the associated grant funding not properly accounted for.	<ul style="list-style-type: none"> • Our audit procedures included testing significant capital expenditures, testing completeness and amortization period of deferred capital contributions. • Our audit procedures identified an unadjusted misstatement from the prior year, discussed further in this report.

Use of experts

We used the work of independent third party specialists for the following:

- Future employee benefits – we relied on the report prepared by the Ministry of Education’s actuary to value your employee future benefits. As a result of our audit work performed, we did not uncover any significant findings to report.

Adjustments and uncorrected misstatements

Adjustments

We have no adjustments to report as a result of our audit procedures.

Uncorrected misstatements

Our audit identified the unadjusted non-trivial misstatement noted below.

Increase (Decrease)	Statement of financial position			Surplus effect	
	Financial assets	Liabilities	Non-financial assets	Accumulated surplus (opening)	Annual surplus
To recognize differences in deferred capital revenue between the general ledger and previously reported financial statement amounts.	\$ -	\$ -	\$ -	\$ (154,339)	\$ 154,339

We have discussed the unadjusted misstatement with management and requested that the identified amounts be adjusted. The amounts have not been adjusted as management believes they are not material to the financial statements and will be corrected in the following period.

Summary of disclosure matters

Our audit did not identify any unadjusted non-trivial misstatements of disclosure matters.

Other reportable matters

Internal control

The audit is designed to express an opinion on the financial statements. We obtain an understanding of internal control over financial reporting to the extent necessary to plan the audit and to determine the nature, timing and extent of our work. Accordingly, we do not express an opinion on the effectiveness of internal control.

If we become aware of a deficiency in your internal control over financial reporting, the auditing standards require us to communicate to the Finance and Operations Committee those deficiencies we consider significant. However, a financial statement audit is not designed to provide assurance on internal control.

Please refer to Appendix C for a detailed explanation of the internal control observations noted during our audit.

Cooperation during the audit

We report that we received full cooperation during the performance of our audit. To our knowledge, we were provided access to all necessary records and other documentation and any issues that arose as a result of our audit were discussed with management and have been resolved to our satisfaction. We would like to recognize the efforts of Michael McLellan and the Finance department staff in completing the current year's audit.

Accounting and assurance

There have been no new accounting or auditing updates that need to be brought to the attention of the Board of Education or Management, which have not been communicated previously.

Regulatory matters

The Office of the Auditor General audits the Summary Financial Statements of the Province of British Columbia which include the financial information of the District. As part of their audit of the Province's Summary Financial Statements, they require us as auditors to provide copies of certain documents and confirm certain matters to them by November 12, 2019.

This includes:

- A copy of the auditor's report and the related financial statements of School District No. 8 (Kootenay Lake) for the year ended June 30, 2019;
- A copy of our assessment of financial statement engagement risk;
- Copies of planning and audit findings reports issued to the audit committee or the Board of Education;
- A copy of our internal control letter with management's response;
- A copy of unadjusted differences (other than misclassifications) of \$1 million or greater and unadjusted differences that are misclassifications or for note disclosures of \$5 million or greater; and
- An assessment of the impact of accounting for Non-Provincial restricted contributions in accordance with the Restricted Contributions Regulation as compared to Public Sector Accounting Standards for contribution amounts exceeding \$1 million.

Appendix A – Draft independent auditor’s report

Appendix B – Draft management representation letter

School District No. 8 (Kootenay Lake)
Summary of Passed Adjusting Journal Entries
For the year ended June 30, 2019

Increase (Decrease)	Statement of financial position			Surplus effect		
Description	Financial assets	Liabilities	Non-financial assets	Accumulated surplus (opening)	Annual surplus	
To recognize differences in deferred capital revenue between the general ledger and previously reported financial statement amounts.	\$	- \$	- \$	- \$	(154,339) \$	\$ 154,339

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Appendix C – Internal control letter

A deficiency in internal control exists where the design, implementation, operation or absence of a control means that internal controls are unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis. The Canadian Auditing Standards require that, where we identify internal control deficiencies during an audit, we assess their importance and severity and communicate them to management and those charged with governance, as appropriate. Deficiencies that are of sufficient importance to merit the attention of those charged with governance are described as "significant deficiencies".

The matters reported below are limited to those deficiencies we identified during the audit that we considered to be of sufficient importance to communicate. Had we performed more extensive procedures on internal control, including procedures subsequent to June 10, 2019, we might have identified more deficiencies or reached different conclusions about the deficiencies reported.

Other deficiencies

Our audit identified the following other deficiencies in internal control:

Deficiency	Description
Operational	During our audit of school generated funds, we noted instances of expense invoices being paid with school funds which did not have any indications of approval by a school administrator. In order to exercise proper control over disbursements and that funds are used for reasonable expenditures, an administrator (such as a principal or vice principal) should be responsible for approving disbursements before payment is made. It is our understanding through review of the internal audits of schools performed by District staff that this issue was identified in multiple schools.