



Final Audit Report to the Board of Trustees

School District No. 8 (Kootenay Lake)

September 21, 2021

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School District No. 8 (Kootenay Lake)
811 Stanley St
Nelson, British Columbia
V1L 1N8

Final Audit Report to the Board of Trustees for the year ending June 30, 2021

Dear Board of Trustees Members:

Our report is designed to highlight and explain key issues which we believe to be relevant to the audit, including audit risks, the nature, extent, timing, and results of our audit work and the terms of our engagement. This report forms a significant part of our overall communication strategy with the Board of Trustees and is designed to promote effective two-way communication throughout the audit process so that we may both share timely information. We are communicating only those matters of governance interest that come to our attention as a result of the performance of the audit. We are not required to design audit procedures for the specific purpose of identifying matters of governance interest.

Our audit and therefore this report will not necessarily identify all matters that may be of interest to the Board of Trustees in fulfilling its responsibilities.

This report has been prepared solely for the use of the Board of Trustees and should not be distributed without our prior consent. Consequently, we accept no responsibility to a third party that uses this communication.

Terms of Reference

Our overall responsibility is to form and express an opinion on the financial statements based on our audit procedures. The financial statements are prepared by management, with oversight by those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. The scope of our work, as confirmed in our engagement letter, are set out below.

Engagement Objectives

- ▶ Forming and expressing an audit opinion on the financial statements.
- ▶ Present significant findings to the Board of Trustees including key audit and accounting issues, any significant deficiencies in internal control and any other significant matters arising from our work.
- ▶ Provide timely and constructive management letters. This will include deficiencies in internal control identified during our audit.
- ▶ Consult regarding accounting and reporting matters are requested throughout the year.
- ▶ Work with management towards the timely issuance of financial statements.



Audit Strategy

Our overall audit strategy involved extensive partner and manager involvement in all aspects of the planning and execution of the audit and was based on our overall understanding of School District No. 8 (Kootenay Lake).

We performed a risk based audit which allows us to focus our audit effort on higher risk areas and other areas of concern for management and the Board of Trustees.

To assess risk accurately, we gained a detailed understanding of School District No. 8 (Kootenay Lake)'s business and the environment it operates in. This allowed us to identify, assess and respond to the risks of material misstatement.

To identify, assess and respond to risk, we obtained an understanding of the system of internal control in place in order to consider the adequacy of these controls as a basis for the preparation of the financial statements, to determine whether adequate accounting records have been maintained and to assess the adequacy of these controls and records as a basis upon which to design and undertake our audit testing.

Based on our risk assessment, we designed an appropriate audit strategy to obtain sufficient assurance to enable us to report on the financial statements.

We chose audit procedures that we believed were the most effective and efficient to reduce audit risk to an acceptable low level. The procedures are a combination of testing the operating effectiveness of internal controls (when appropriate), substantive analytical procedures and other tests of detailed transactions.

Having planned our audit, we performed audit procedures, maintaining an appropriate degree of professional skepticism, in order to collect evidence to support our audit opinion.

Risks and Planned Audit Responses

Based on our knowledge of School District No. 8 (Kootenay Lake)'s business, our past experience with other School Districts, and knowledge gained from management and you, we identified the following financial statement areas with significant risks; those risks of material misstatement that, in our judgment, required special consideration.

These risks arose mainly because of the complexity of the accounting rules, the extent of estimation and judgment involved in the valuation of these financial statement areas, and the existence of new accounting pronouncements that affect them.

Financial Statement Areas	Audit Procedures Performed
Revenue, government transfers, and deferred revenue	<ul style="list-style-type: none"> Reviewed revenue recognition policy for consistency with the professional standards and test eligibility and stipulations for deferral (including special purpose school generated funds), if any.
Potential of management's override or lack of segregation of duties	<ul style="list-style-type: none"> Reviewed and tested internal control procedures, including those surrounding journal entries and approvals.
Ordinary presumption of fraud in relation to revenue recognition, as specified in the Canadian Auditing Standards	<ul style="list-style-type: none"> Reviewed and evaluated which types of revenue, revenue transactions or assertions give rise to such fraud risks and test internal control procedures or perform alternate procedures to address those fraud risks.
Estimates - useful life of tangible capital assets	<ul style="list-style-type: none"> Reviewed estimated useful life of tangible capital assets to determine if estimates are reasonable and consistently applied.
Employee future benefits	<ul style="list-style-type: none"> Reviewed the independent valuation report prepared by Mercer and agreed the figures adjusted for in the financials Determined the reasonableness of estimates and assumptions in relation to future obligations.
Financial instruments	<ul style="list-style-type: none"> Ensured proper recognition and measurement of financial instruments and appropriate accounting treatment.

Materiality

Misstatements, including omitted financial statement disclosures, are considered to be material if they, individually or in 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 include an assessment of both quantitative and qualitative factors and can be affected by the size or nature of a misstatement, or a combination of both.

For purposes of our audit, materiality was set at \$1,500,000 for the year ended June 30, 2021. We communicate all corrected and uncorrected misstatements identified during our audit to the Board of Trustees, other than those which we determined to be "clearly trivial" and in the current year, there were no corrected or uncorrected misstatements to note. Misstatements are considered to be clearly trivial for purposes of the audits when they are inconsequential both individually and in aggregate.

Reliance on an Expert

In order for us to perform adequate audit procedures on certain financial statement areas, we relied on the work of, and the report prepared by Mercer (Canada) Limited. Canadian generally accepted auditing standards require us to communicate with the expert. We discussed the following with Mercer (Canada) Limited:

- ▶ The objective and nature of the audit engagement and how we intended to use the expert's findings and report
- ▶ Our assessment of the significance and risk aspects of the engagement that affected the expert's work
- ▶ The requirement to advise us if they have any relationship with School District No. 8 (Kootenay Lake) which impaired their judgment or objectivity in the conduct of their engagement
- ▶ The nature, timing and extent of the expert's work and our planned review of it, possibly including review of their working papers
- ▶ Confirmation that the assumptions used in their calculations are consistent with those used in the prior periods and with industry standards
- ▶ Their obligation to advise BDO Canada LLP of any matters up to the estimated audit report date that may affect their calculations and their report

Independence

Our annual communication confirming our independence is included as an Appendix. We are not aware of any relationships between the entity and us that, in our professional judgment, may reasonably be thought to bear on our independence to date.

Auditor's Considerations of Possible Fraud and Illegal Activities

We are responsible for planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by error or fraud, by:

- ▶ Identifying and assessing the risks of material misstatement due to fraud;
- ▶ Obtaining sufficient and appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- ▶ Responding appropriately to fraud or suspected fraud identified during the audit.

The likelihood of not detecting a material misstatement resulting from fraud is higher than the likelihood of not detecting a material misstatement resulting from error because fraud may involve collusion as well as sophisticated and carefully organized schemes designed to conceal it.

During the audit, we performed risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the School District's internal control, to obtain information for use in identifying the risks of material misstatement due to fraud and made inquiries of management regarding:

- ▶ Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments;
- ▶ Management's process for identifying and responding to the risks of fraud in the School

District, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist;

- ▶ Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in School District No. 8 (Kootenay Lake); and
- ▶ Management's communication, if any, to employees regarding its view on business practices and ethical behaviour.

In response to our risk assessment and our inquiries of management, we performed procedures to address the assessed risks, which may have included:

- ▶ Inquired of management, the Board of Trustees, and others related to any knowledge of fraud, suspected fraud or alleged fraud;
- ▶ Performed disaggregated analytical procedures and consider unusual or unexpected relationships identified in the planning of our audit;
- ▶ Incorporated an element of unpredictability in the selection of the nature, timing and extent of our audit procedures; and
- ▶ Performed additional required procedures to address the risk of management's override of controls including:
 - Testing internal controls designed to prevent and detect fraud;
 - Testing the appropriateness of a sample of adjusting journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud;
 - Reviewing accounting estimates for biases that could result in material misstatements due to fraud, including a retrospective review of significant prior years' estimates; and
 - Evaluated the business rationale for significant unusual transactions.

Adjusted and Unadjusted Differences

There were no adjusted, unadjusted differences or disclosure omissions identified through the course of our audit engagement.

Should the Board of Trustees agree with this assessment, we do not propose further adjustments.

Significant Findings, Accounting Policies, Estimates and Judgments

Management is responsible for determining the significant accounting policies. The choice of different accounting policy alternatives can have a significant effect on the financial position and results of operations of the School District. The application of those policies often involves significant estimates and judgments by management. Our comments below are intended to provide you with some thoughts on the qualitative aspects of the significant accounting policies chosen by management, and the significant estimates and judgements made by management, so that you can assess the appropriateness of management's choices.

Accounting Policy / Judgment / Estimate	Discussion of Qualitative Aspects of Significant Accounting Policies
Revenue Recognition	<p>There is a risk that management may manage grant revenue to match expenses by deferring funds; incurring costs; accruing and expensing costs to utilize unused funds; or allocating costs to different expense categories.</p> <p>Contributions are only to be deferred when there are explicit or clear implicit restrictions imposed by external parties, and then recognized as revenue when used for their specified purpose. Government transfers that meet eligibility criteria but have stipulations with that funding would recognize the transfer as revenue when the stipulation is satisfied or over the life of the asset if it is capital funding.</p> <p>There may be circumstances when the stipulations of a transfer alone are too broad to create an obligation that meets the definition of a liability. In such cases, a recipient government would review its own actions and communications by the financial statement date to evaluate whether they are consistent with the substance and intent of the transfer stipulations, and determine whether the nature and extent of those actions and communications together with the transfer stipulations create an obligation that meets the definition of a liability.</p> <p>It is management's opinion that all amounts reported as deferred revenue, deferred contributions, and unspent deferred capital contributions meet the definition of a liability.</p>
Estimates - useful life of capital assets	<p>Given the size and type of the School District No. 8 (Kootenay Lake)'s tangible assets, a risk was raised with regards to the useful life of capital assets, such that an error in this estimate could have a material impact on the financial statements. In order to mitigate the risk, we performed the following procedures:</p> <ul style="list-style-type: none"> • Reviewed estimated useful life of tangible capital assets for the purpose of amortization to determine that they are reasonable and consistently applied. <p>It was determined that the policies by the School District for the estimated useful life of tangible capital assets are reasonable and consistently applied.</p>

We are of the view that nothing has come to our attention that indicates that the significant accounting policies, estimates and judgments made by management are not reasonable in the context of the financial statements taken as a whole.

Management Representations

During the course of the audit, management made certain representations to us. These representations were verbal or written and therefore explicit, or they were implied through the financial statements. Management provided representations in response to specific queries from us, as well as unsolicited representations. Such representations were part of the evidence gathered by us to be able to draw reasonable conclusions on which to base the audit opinion. These representations were documented by including in the audit working papers memoranda of discussions with management and written representations received from management.

Management's representations included, but were not limited to:

- ▶ matters communicated in discussions with us, whether solicited or unsolicited;
- ▶ matters communicated electronically to us;
- ▶ schedules, analyses and reports prepared by the entity, and management's notations and comments thereon, whether or not in response to a request by us;
- ▶ internal and external memoranda or correspondence;
- ▶ open and closed minutes of meetings of the Board of Trustees;
- ▶ a signed copy of the financial statements; and
- ▶ a representation letter from management.

A summary of the representations we have requested from management is set out in the management representation letter included in Appendix A to the report. We will provide you a copy of the management representation letter, which summarizes the representations we have requested from management.

Management Letter

We have submitted to management a letter on our assessment of the internal control environment and in the current year, there were no areas that we noted for improvement.

We wish to express our appreciation for the co-operation we received during the audit from School District No. 8 (Kootenay Lake)'s management and staff who have assisted us in carrying out our work. We would be pleased to discuss with you the contents of this report and any other matters that you consider appropriate.

Yours truly,



Sinéad Scanlon, CPA, CA
Partner
BDO Canada LLP
Chartered Professional Accountants



APPENDIX: INDEPENDENCE

September 21, 2021

Dear Board of Trustees Members:

At the core of the provision of external audit services is the concept of independence. We are communicating all relationships between BDO Canada LLP and its related entities and School District No. 8 (Kootenay Lake) and its related entities that, in our professional judgment, may reasonably be thought to have influenced our independence during the audit.

In determining which relationships to report, we have considered the applicable legislation and relevant rules of professional conduct and related interpretations prescribed by the appropriate provincial institute/order covering such matters as the following:

- Holding a financial interest, either directly or indirectly in a client;
- Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- Economic dependence on a client; and
- Provision of services in addition to the audit.

We have prepared the following comments to facilitate our discussion with you regarding independence matters.

We are not aware of any relationships between the entity and us that, in our professional judgment, may reasonably be thought to bear on our independence to date.

We hereby confirm that we are independent with respect to the entity within the meaning of the Code of Professional Conduct of the Chartered Professional Accountants of British Columbia as of September 21, 2021.

This communication is intended solely for the use of the Board of Trustees, management and others with the entity and should not be used for any other purposes.

Yours truly,

A handwritten signature in blue ink that reads 'Sinéad Scanlon'.

Sinéad Scanlon, CPA, CA
Partner
BDO Canada LLP
Chartered Professional Accountants



APPENDIX: DRAFT INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
School District No. 8 (Kootenay Lake)

Opinion

We have audited the financial statements of School District No. 8 (Kootenay Lake) (the School District), which comprise the statement of financial position as at June 30, 2021, and the statements of operations, changes in net financial assets (debt), and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the School District as at and for the year ended June 30, 2021 are prepared, in all material respects, in accordance with the accounting requirements of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia (the Act).

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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the School District 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 - Basis of Accounting

We draw attention to Note 2 to the financial statements which describes the basis of accounting. The financial statements are prepared in order for the School District to meet the reporting requirements of the Act referred to above. Note 2 to the Financial Statements discloses the impact of these differences between such basis of accounting and Canadian public sector accounting standards. Our opinion is not modified in respect of this matter.

Other Matters

We draw attention to the fact that the supplementary information included in Schedule 1 to 4 does not form part of the financial statements. We have not audited or reviewed this supplementary information and, accordingly, we do not express an opinion, a review conclusion or any other form of assurance on this supplementary information.

The comparative amounts presented in these financials statements were audited by another firm of Chartered Professional Accountants who expressed an unmodified opinion on September 22, 2020.

Other Information

Management is responsible for the other information. The other information, other than the financial statements and our auditor's report thereon, includes the Financial Statement Discussion



and Analysis.

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

In connection with our audit of the consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Prior to the date of this auditor's report, we obtained the Financial Statement Discussion and Analysis prepared by management. If, based on the work we have performed on this information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's 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 Act, 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 School District'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 School District, or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 auditor's 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 these 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 School District'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 School District's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However future events or conditions may cause the School District to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the School District to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the School District audit. We remain solely responsible for our audit opinion.

We 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.

BDO Canada LLP

Chartered Professional Accountants

Cranbrook, British Columbia
September 21, 2021