KPMG

cutting through complexity

AUDIT

School District No. 61 (Greater Victoria)

Audit Planning Report
For the year ending June 20, 2016

KPMG LLP

For meeting on June 20, 2016

kpmg.ca

The contacts at KPMG in connection with this report are:

Lenora Lee
Lead Audit Engagement Partner

Tel: (250) 480-3588
lenoramlee@kpmg.ca

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At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours**.

Executive summary

Audit and business risk

Our audit is risk-focused. In planning our audit of School District No. 61 (Victoria) (the District) we have taken into account key areas of focus for financial reporting. These include:

- Salaries and employee future benefits expense
- Tangible capital assets
- Balanced budget legislation and financial reporting framework

See pages 5-6

Audit Materiality

Materiality for the financial statements has been determined based on a percentage of total revenues. We have determined materiality to be $3,200,000 for the year ending June 30, 2016 (2015 – $2,800,000).

See page 8

Effective communication

We are committed to transparent and thorough reporting of issues to management and the Operations Policy and Planning Committee. We have also planned our work to co-ordinate and communicate with KPMG partners and offices conducting School District audits in BC.

KPMG team

The KPMG team will be led by Lenora Lee. Subject matter experts will be involved to ensure our approach is appropriate and robust.

Annual Inquiries of the Operations Policy and Planning Committee

Professional standards require that during the planning of our audit we obtain your views on the risk of fraud. We make similar inquiries to management as part of our planning process; responses to these questions will assist us in planning our overall audit strategy and audit approach accordingly.

See page 4 and Appendix 3

Independence

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow appropriate approval protocols where required.

Risk assessment

Our planning begins with an assessment of inherent risk of material misstatement in the District's financial statements. Our assessment is based on a variety of factors that include our knowledge of your business, the operating environment and the susceptibility of the account balance to the risk of material misstatement.

We design an overall audit strategy and an audit approach to address the significant financial reporting areas identified during the planning process.

Identification of significant financial reporting areas

As part of our audit planning, we identify financial statement transactions and balances for the District's 2016 financial statements, make assessments of the risk of significant errors or misstatements and assess where we intend to focus our audit strategy and approach.

By making assessments of risk and focusing our audit procedures on significant financial reporting areas, we establish an overall audit strategy and effectively target our audit procedures.

Annual inquiries of the Operations Policy and Planning Committee

Professional standards require that during the planning of our audit we obtain your views on the risk of fraud. We make similar inquiries to management as part of our planning process; responses to these questions will assist us in planning our overall audit strategy and audit approach accordingly.

- Are you aware of, or have you identified any instances of, actual, suspected, possible, or alleged non-compliance of laws and regulations or fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?
- What are your views about fraud risks in the entity?
- How do you provide effective oversight of programs and controls to prevent, detect and deter fraud, including oversight over internal controls management has established to mitigate fraud risks?
- Is the committee aware of tips or complaints regarding the entity's financial reporting and, if so, what are the responses to such tips and complaints?

Audit approach

Included on the right, is a summary of our planned audit approach over significant financial reporting areas. This approach may evolve based on the results of our interim testing and/or any significant transactions or changes at the District. Any changes to our audit approach will be communicated to you as part of our audit findings report.

Inherent risk is the susceptibility of a balance or assertion to misstatement which could be material, assuming that there are no related controls. Our assessment of inherent risk is based on various factors including the size of the balance, its inherent complexity, the level of uncertainty in measurements as well as significant external factors or those particular to the entity.

Significant financial reporting area	Financial reporting risk	Our audit approach
Salaries and employee future benefits	Employee future benefits obligation estimates are accurately recorded and presented. Salaries and related payroll liabilities are appropriately recognized and accurately recorded.	• Control testing and process review of payroll processing procedures. • Detailed testing and recalculation of salaries and benefits expense in accordance with collective agreements and related accruals. • Review of collective agreements for obligations by the District to provide benefits in the future. • Review of assumptions and method used in estimating the liability for future employee benefits. • Confirmation of reliance on actuarial valuation with Mercer. • Testing of source documentation provided to actuary against source documentation verifying employee data. • Retrospective review of management's previous estimates. • Review financial statement presentation to ensure it is consistent with applicable financial reporting framework.
Tangible capital assets	Capital projects (seismic upgrades) in process are accurately recorded and disclosed. Other significant capital projects and expenses are approved and accurately recorded (along with related funding). Ongoing evaluation of liability for contaminated sites for assets not in productive use.	• Detailed testing of asset purchases. Areas of focus will include disposal of the Blanshard property, capital contribution agreements signed with Bays United and the Corporation of the District of Oak Bay and disposal of the old Oak Bay school building. • Verify percentage of completion of significant capital projects, if applicable. • Review agreements for contractual commitments and related disclosure requirements. • Review valuation and presentation of closed schools available for sale, if any new properties have been identified in 2016. • Evaluate whether capital funding has been spent appropriately on eligible capital projects.

Audit approach (continued)

Auditors' Opinion – Compliance Framework	Financial statements are prepared in accordance with appropriate financial statement 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.

Audit approach (continued)

Professional standards presume the risk of fraudulent revenue recognition and the risk of management override of controls exist in all entities.

The risk of fraudulent recognition can be rebutted, but the risk of management override of control cannot because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

CAS requirements	Why	Our audit approach
Fraud risk from revenue recognition	This is a presumed fraud risk. There may be pressures on management to commit fraudulent financial reporting through inappropriate revenue recognition when there is an expectation/requirement to maintain a balanced budget from year to year and to realize administrative savings without affecting instruction.	• Evaluation and testing of controls related to recording of journal entries • Confirmation of grant revenues with the Province • Detailed testing and recalculation of revenue balances • Detailed cut-off testing of revenues with large or unusual reconciling items • Detailed testing of journal entries at period end and subsequent to year end • Assessment of revenue recognition in accordance with financial reporting framework • Additional testing and reporting related to certain deferred amounts requested by Auditor General
Fraud risk from management override of controls	This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.	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, performing a retrospective review of management estimates and evaluating the business rationale of significant unusual transactions.

Materiality

We are required to re-assess materiality at the completion of our audit based on period-end results or new information in order to confirm whether the amount determined for planning purposes remains appropriate.

Our assessment of misstatements, if any, in amounts or disclosures at the completion of our audit will include the consideration of both quantitative and qualitative factors.

The determination of materiality requires judgment and is based on a combination of quantitative and qualitative assessments including the nature of account balances and financial statement disclosures:

Materiality	Determined to plan and perform the audit and to evaluate audit results. The corresponding amount for the 2015 audit was $2,800,000.	$3,200,000
Audit Misstatement Posting Threshold	Threshold used to assess accumulated misstatements identified during the audit. Established as 5% of materiality.	$160,000

Audit cycle and timetable

Our key activities during the year are designed to achieve our one principal objective:

To provide a robust audit, efficiently delivered by a high quality team focused on key issues.

Planning meeting with management: March 2016

Commence year end planning including coordination with specialists: March 2016

Present Audit Planning Report to Operations Policy and Planning Committee: June 20, 2016

Conduct year end fieldwork:

July 25 – August 5, 2016

Audit findings discussion with District management:

August 2016

Present Audit Findings and provide audit opinion on financial statements:

September 2016

Complete and release reporting package and subsequent events update to the Auditor General:

November 2016

Appendices

Appendix 1: 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 summarises the six key elements of our quality control systems.

- Other controls include:
  - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.

- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.
- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
  - Assignment based on skills and experience;
  - Rotation of partners;
  - Performance evaluation;
  - Development and training; and
  - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.

Appendix 2: KPMG's audit approach and methodology

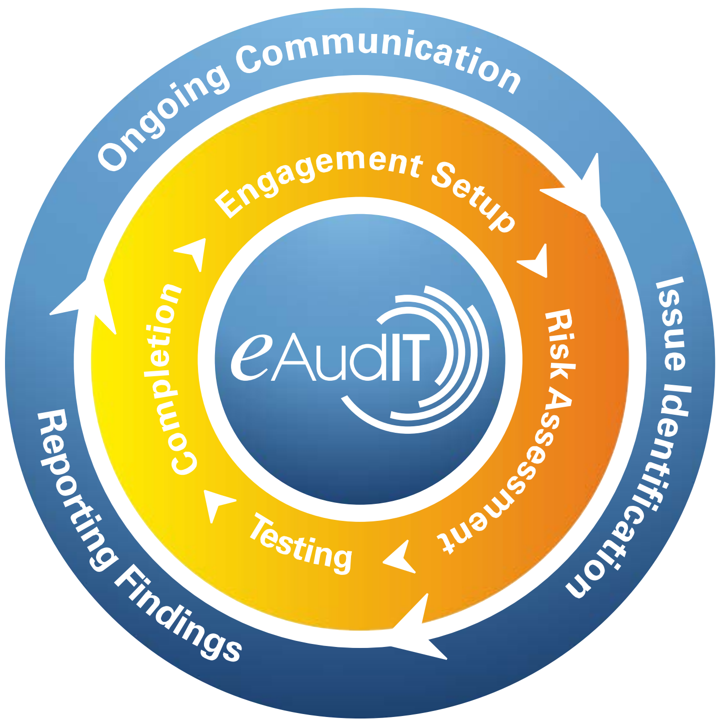
Technology-enabled audit workflow (eAudIT)

Engagement Setup

- Tailor the eAudIT workflow to your circumstances
- Access global knowledge specific to your industry
- Team selection and timetable

Completion

- Tailor the eAudIT workflow to your circumstances
- Update risk assessment
- Perform completion procedures and overall evaluation of results and financial statements
- Form and issue audit opinion on financial statements
- Obtain written representation from management
- Required Audit Committee communications
- Debrief audit process



Risk Assessment

- Tailor the eAudIT workflow to your circumstances
- Understand your business and financial processes
- Identify significant risks
- Plan the use of KPMG specialists and others including auditor's external experts, management experts, internal auditors, service organizations auditors and component auditors
- Determine audit approach
- Evaluate design and implementation of internal controls (as required or considered necessary)

Testing

- Tailor the eAudIT workflow to your circumstances
- Perform tests of operating effectiveness of internal controls (as required or considered necessary)
- Perform substantive tests

Appendix 3: Required communications

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

- **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.
- **Audit planning report** – as attached
- **Fraud related inquiries** – professional standards require that during the planning of our audit we obtain your views on risk of fraud. We make similar inquiries to management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly.
- **Management representation letter** – we will obtain from management at the completion of the audit. In accordance with professional standards, copies of the representation letter will be provided to the Finance and Facilities Committee.
- **Audit findings report** – we will provide this report at the completion of our audit to the Operations Policy and Planning Committee.

Appendix 4: Current developments

The following is a summary of the current developments that are relevant to the District.

Standard	Summary and implications

Related Party Transactions and Inter-entity Transactions	• Two new Handbook sections were approved in December 2014, effective for fiscal years beginning on or after April 1, 2017.
	• Related parties include entities that control or are controlled by a reporting entity, entities that are under common control and entities that have shared control over or that are subject to shared control of a reporting entity.
	• Individuals that are members of key management personnel and close members of their family are related parties. Disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered is not required.
	• Determining which related party transactions to disclose is a matter of judgment based on assessment of:
	  • the terms and conditions underlying the transactions;
	  • the financial significance of the transactions;
	  • the relevance of the information; and
	  • the need for the information to enable users' understanding of the financial statements and for making comparisons.
	• A related party transaction, with the exception of contributed goods and services, should normally be recognized by both a provider organization and a recipient organization on a gross basis.
	• Related party transactions, if recognized, should be recorded at the exchange amount. A public sector entity's policy, budget practices or accountability structures may dictate that the exchange amount is the carrying amount, consideration paid or received or fair value.

Assets, Contingent Assets and Contractual Rights	• Three new Handbook sections were approved in March 2015, effective for fiscal years beginning on or after April 1, 2017. • The intended outcome of the three new Handbook Sections is improved consistency and comparability. • The standard includes enhanced guidance on the definition of assets and disclosure of assets to provide users with better information about the types of resources available to the public sector entity. • Disclosure of contingent assets and contractual rights is required to provide users with information about the nature, extent and timing of future assets and potential assets and revenues available to the public sector entity when the terms of those contracts are met.

Restructurings	• A new Handbook section was approved in March 2015, effective for fiscal years beginning on or after April 1, 2018. • A restructuring transaction is a transfer of an integrated set of assets and/or liabilities, together with related responsibilities for program delivery or administrative operations, that does not involve a payment or other consideration that approximates the fair value of what is transferred. • The new standard requires the transferor remove the assets and liabilities transferred from its books at their carrying amount at the restructuring date. The recipient would recognize the assets and liabilities received at their carrying amount with applicable adjustments at the restructuring date. Both the transferor and the recipient would recognize the net effect of the transfer and any compensation involved as revenue or an expense. • Restructuring-related costs are recognized as expenses when incurred. • Financial information prior to the restructuring date would not be restated.
Revenue	• PSAB is proposing a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. A Statement of Principles was issued in 2013 and comments are currently under deliberation. • A request for information is under development and expected for release in 2015. Adoption of these principles would result in a need to assess current accounting policies. • In the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. • For unilateral revenues, 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.
Asset retirement obligations	• A new standard is under development addressing 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 current contains no specific guidance in this area. • In August 2014, a Statement of Principles was issued with responses and feedback solicited by November 2014. • PSAB is currently deliberating responses and an exposure draft is under development, expected for release in the 2016.
Conceptual framework	• A consultation paper was issued on the conceptual framework and closed in August 2015. A Statement of Principles anticipated in 2016 which includes a number of presentation recommendations to enhance accountability objective of public sector financial statements. • A new "Statement of Comprehensive Financial Results" replaces the Statement of Operations and Statement of Remeasurement Gains and Losses. • Revenues and expenses to be grouped to show the net results of services. • Below net results of services, non-operating items presented such as: grants recognized for the acquisition of tangible capital assets, unrealized remeasurement gains and losses, and unusual transactions. • Grants received for the purpose of a tangible capital asset used to provide services for a defined number of years proposed to be recognized in operating revenue as the liability is settled.