

School District No. 23 (Central Okanagan)

For the year ended June 30, 2021

Report to the Finance and Audit Committee
Audit results

September 22, 2021

Tyler Neels, CPA, CA	Kate Cumming, CPA
Partner	Manager
T +1 (250) 712-6853	T +1 (250) 712-6837
E Tyler.Neels@ca.gt.com	E Kate.Cumming@ca.gt.com



Contents

Executive summary	1
Audit risks and results	3
Adjustments and uncorrected misstatements	6
Other reportable matters	7

Appendices

Appendix A – Draft independent auditor’s report
Appendix B – Draft Management representation 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. 23 (Central Okanagan) (the "District") for the year ended June 30, 2021. This communication will assist the Finance and Audit 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 Board of Education, the Finance and Audit Committee, 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 May 19, 2021
Report on the June 30, 2021 financial statements	Finalized after approval of the financial statements by the Board of Education
Communication of audit results	Within this report
Other – Reporting to the OAG	Completed after approval of the financial statements by the Board of Education

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 22, 2021:

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

We have successfully executed our audit strategy in accordance with the plan presented to the Finance and Audit Committee on May 19, 2021.

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.

The financial statements of the School District are prepared in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia which are consistent with Canadian public sector accounting standards except in regard to the accounting for government transfers.

Our audit report has been modified to reflect a compliance audit opinion and included an emphasis of matter paragraph drawing attention to Note 2 to the financial statements, which describes the basis of accounting and significant differences between such basis of accounting and Canadian public sector accounting standards.

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

Independence

We confirm that there have been no changes to our status with respect to independence since we confirmed our independence to you on May 19, 2021.

Audit risks and results

We highlight our significant findings in respect of COVID-19 impacts on audit risks and responses, significant transactions, accounting practices and other areas of focus.

COVID-19 impact on audit risks and responses

Area of focus	Matter	Our response and findings
Audit impact	<p>As a result of the continuing impact of the COVID-19 virus, we were not able to physically attend the School District offices for the majority of the interim and year end audit.</p> <p>As a result of the continuing impact of the COVID-19 virus, certain School District staff were required to perform their duties from virtual locations.</p>	<ul style="list-style-type: none"> We completed the majority of our audit procedures remotely using a combination of online shared workspaces, Microsoft Teams Meetings, email correspondence and phone calls as well as some onsite fieldwork by our team. We were able to obtain all information we required to complete our audit procedures. Consistent with the prior year, the more significant changes in policies and procedures as a result of COVID-19 relate to the use of email and e-signature approvals as opposed to physical signatures and the other policies and procedures appeared to be operating consistently. We did not identify any material weaknesses as a result of work from home arrangements.
Disclosures	In addition to the quantitative impact of COVID-19 on the School District's financial statements, management has included additional disclosures in Note 1 to the financial statements to disclose the nature of uncertainty with respect to COVID-19.	<ul style="list-style-type: none"> We reviewed the disclosures in the financial statements and concluded that they are appropriate.
COVID-19 funding	During the year, the School District received COVID-19 funding of \$11M which are included in special purpose funds. At June 30, 2021, all of this funding was used to fund either operations or capital projects.	<ul style="list-style-type: none"> As part of our audit procedures, we performed the following: <ul style="list-style-type: none"> Obtained confirmation from the Ministry of Education for grants received; Discussed processes for tracking expenditures with management; Reviewed management calculations to support expenditures and resulting recognition of revenue. No matters of concern were noted.

Significant transactions

Area of focus	Matter	Our response and findings
Construction in progress	The significant construction in progress throughout the year on H.S Grenda Middle School has resulted in work in progress buildings additions of \$18M.	<ul style="list-style-type: none"> Audit procedures performed included agreeing significant building additions to progress billing invoices and vouching year-end holdback accruals to supporting documentation. Our audit procedures noted the adjusting journal entry on page 7.

Areas of focus

The following is a summary of areas of focus, and the related matters and findings we would like to communicate to the Finance and Audit Committee.

Area of focus	Matter	Our response and findings
Grant revenues	Grant revenues are material and significant to the financial statements	<ul style="list-style-type: none"> Audit procedures performed included confirming grants received and receivable with the Ministry of Education and reconciling accounts. Our audit procedures did not uncover any significant findings to report.
Tangible capital assets and deferred capital contributions	Tangible capital assets activities are not valid, and associated grant funding is not accounted for properly	<ul style="list-style-type: none"> Audit procedures performed included testing significant capital expenditures, agreeing to supporting documentation, reviewing applicable lease and funding agreements, and recalculating expected amortization of deferred capital contributions. Our audit procedures did not uncover any significant findings to report.
Investments	Fair value measurements are not correct or investment activities are not valid	<ul style="list-style-type: none"> Audit procedures performed included confirming the fair value of investments with the investment custodian and reviewing significant transactions. Our audit procedures did not uncover any significant findings to report.
Purchases and payables	Payables understated or not recorded in the correct period	<ul style="list-style-type: none"> Audit procedures performed included reviewing and documenting controls around the purchasing cycle, reviewing expenses analytically and investigating any significant variances, agreeing expenses recorded to supporting documentation for a selection of transactions, and performing substantive procedures on the cut-off of expenses. Our audit procedures did not uncover any significant findings to report.
Employee compensation	Employee compensation accruals or expenses understated	<ul style="list-style-type: none"> Audit procedures performed included reviewing controls around maintenance of employee Masterfile and related payroll transactions, testing key controls for operating effectiveness, performing an analytical review of employee compensation by bargaining unit, and performing tests of details on a sample of employee compensation transactions. Our audit procedures did not uncover any significant findings to report.
Tuition and fee revenue	Tuition and fee revenues are material to the financial statements	<ul style="list-style-type: none"> Our audit procedures included testing a sample of tuition fees, performing analytical review of tuition revenue recognized during the year and reviewing the deferred revenue schedule to ensure amounts received were appropriately deferred to the period they applied to. Our audit procedures did not uncover any significant findings to report.
School generated funds	Recorded revenues and expenditures are not valid	<ul style="list-style-type: none"> As part of our audit procedures, we performed the following: Reviewed controls around the process to recognize revenues from school generated funds; Reviewed a sample of bank reconciliations; Performed analytical review of transactions by schools; and Tested a sample of receipts and disbursements. No matters of concern were noted.

Accounting practices and significant estimates

Area of focus	Matter	Our response and findings
Significant accounting policies	The financial statements of the School District are prepared in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia which are consistent with Canadian public sector accounting standards except in regard to the accounting for government transfers.	<ul style="list-style-type: none"> The impact of this difference on the financial statements of the School District would be a decrease in deferred capital contributions, an increase in accumulated surplus, and a change in revenues and annual surplus for each year. The difference is disclosed in Note 2 (a) to the financial statements.
Future employee benefits	The School District provides certain post-employment benefits for certain employees pursuant to contracts and union agreements. These benefits include vested sick leave, accumulating non-vested sick leave, early retirement, retirement/severance, vacation, overtime and death benefits. The most recent actuarial valuation of the obligation was performed at March 31, 2019 and projected to March 31, 2022.	<ul style="list-style-type: none"> We relied on the actuarial valuation prepared by Mercer Consultants for audit support for the employee future benefits liability of the School District. To test the reasonableness of the actuarial valuation, we performed the following: <ul style="list-style-type: none"> Evaluated the competence, capabilities and objectivity of the actuary; Reviewed assumptions, methods and nature of internal and external data used; and Ensured the actuarial valuation information is appropriately disclosed in the notes to the financial statements. No matters of concern were noted.
Tangible capital assets Amortization of deferred capital contributions	Management estimates the useful lives of buildings and, equipment based up on the straight-line method over rates ranging from 5 to 40 years.	<ul style="list-style-type: none"> We reviewed the amortization method for reasonableness and the calculations are consistent with the Ministry of Education Amortization Tool.
Asset retirement obligations	Legal liabilities may exist for the removal or disposal of asbestos in schools that will undergo major renovations or demolition. The value of the liability for asbestos removal or disposal will be recognized in the period in which a reasonable estimate of the fair value can be made. As at June 30, 2021, management has assessed that the liability is not reasonably determinable.	<ul style="list-style-type: none"> We inquired of management of their process in reviewing asset retirement obligations. We agree with management's current assessment and the disclosure contained in the financial statements. New accounting standards have been developed for asset retirement obligations that will be in effect for years beginning on or after April 1, 2022. The implementation of these new standards will require estimates about the future cash flows associated with asset retirement obligations and discount rates. The implementation of this new standard is complex and will require dedicated time and resources.

Adjustments and uncorrected misstatements

Adjustments

Misstatements identified and adjusted in the financial statements by the District as a result of our audit procedures are as follows:

Description	Increase (Decrease)	Statement of Financial Position			Income effect	
		Assets	Liabilities	Equity	Earnings	
To accrue construction holdbacks payable at year-end.		\$ 2,427,965	\$ 2,427,965	\$ -	\$ -	
To accrue COA draws on construction holdback above.		\$ 2,427,965	\$ 2,427,965	\$ -	\$ -	

Uncorrected misstatements

We have no non-trivial unadjusted misstatements to report.

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 Audit Committee those deficiencies we consider significant. However, a financial statement audit is not designed to provide assurance on internal control.

Based on the results of our audit, we did not identify any reportable observations.

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.

Regulatory

The Office of the Auditor General ("OAG") audits the Summary Financial Statements of the Province of British Columbia which include the financial information of the School 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 19, 2021. This includes:

- A copy of the auditor's report and the related financial statements of School District No. 23 (Central Okanagan) for the year ended June 30, 2021;
- 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.

We will provide all required information to the OAG.

Appendix A – Draft independent auditor’s report

Independent Auditor's Report

To the Board of Education of [School District No. 23 \(Central Okanagan\)](#)
and the [Ministry of Education](#)

Opinion

We have audited the financial statements of School District No. 23 (Central Okanagan) ("the District"), which comprise the statement of financial position as at June 30, 2021, and the statement of operations, statement of remeasurement gains and losses, statement of changes in net financial assets (debt) and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of School District No. 23 (Central Okanagan) as at June 30, 2021 and for the year then ended, 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 ("Section 23.1").

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 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

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

Other matter – Supplementary Information

We draw attention to the fact that the supplementary information included in Schedules 1 through 4 do 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.

Other information

Our audit was conducted for the purposes of forming an opinion on the financial statements taken as a whole. Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in 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 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 Financial Statement Discussion and Analysis prior to the date of this auditor's 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 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 and fair presentation of these financial statements in accordance with the accounting requirements of Section 23.1, 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 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 District or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the 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 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 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 District to cease to continue as a going concern.

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.

Appendix B – Draft management representation letter

SCHOOL DISTRICT NO. 23 (CENTRAL OKANAGAN)
1040 Hollywood Road South
Kelowna BC V1X 4N2

September 22, 2021

Grant Thornton LLP
Chartered Professional Accountants
200 – 1633 Ellis Street
Kelowna BC V1Y 2A8

Dear Sir/Madam:

We are providing this letter in connection with your audit of the financial statements of School District No. 23 (Central Okanagan) ("the District") as of June 30, 2021 and for the year then ended, for the purpose of expressing an opinion as to whether the financial statements, the financial position, results of operations, and cash flows of the District 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 ("Section 23.1").

We acknowledge that we have fulfilled our responsibilities for the preparation of the financial statements in accordance with the accounting requirements of Section 23.1 and for the design and implementation of internal controls to prevent and detect fraud and error. We have assessed the risk that the financial statements may be materially misstated as a result of fraud, and have determined such risk to be low. Further, we acknowledge that your examination was planned and conducted in accordance with Canadian generally accepted auditing standards (GAAS) so as to enable you to express an opinion on the financial statements. We understand that while your work includes an examination of the accounting system, internal controls and related data to the extent you considered necessary in the circumstances, it is not designed to identify, nor can it necessarily be expected to disclose, fraud, shortages, errors and other irregularities, should any exist.

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the financial statements would influence the decision of a reasonable person relying on the financial statements.

We confirm, to the best of our knowledge and belief, as of September 22, 2021, the following representations made to you during your audit.

Financial statements

- 1 The financial statements referred to above present the financial position of the District as at June 30, 2021 and the results of its operations and its cash flows for the year then ended are prepared, in all material respects, in accordance with the accounting requirements of Section 23.1, as agreed to in the terms of the audit engagement.

Completeness of information

- 2 We have made available to you all financial records and related data and all minutes of the meetings of the Board of Education, as agreed in the terms of the audit engagement. Summaries of actions of recent meetings for which minutes have not yet been prepared have been provided to you. All significant board and committee actions are included in the summaries.
- 3 We have provided you with unrestricted access to persons within the District from whom you determined it necessary to obtain audit evidence.
- 4 There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- 5 There were no restatements made to correct a material misstatement in the prior period financial statements that affect the comparative information.

- 6 We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements.
- 7 We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss.
- 8 We have disclosed to you all known deficiencies in the design or operation of internal control over financial reporting of which we are aware.
- 9 We have identified to you all known related parties and related party transactions, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements guarantees, non-monetary transactions and transactions for no consideration.
- 10 You provided a non-audit service by assisting us with reviewing the financial statements and related notes. In connection with this non-audit service, we confirm that we have made all management decisions and performed all management functions, have the knowledge to evaluate the accuracy and completeness of the financial statements, and accept responsibility for such financial statements.

Fraud and error

- 11 We have no knowledge of fraud or suspected fraud affecting the District involving management; employees who have significant roles in internal control; or others, where the fraud could have a non-trivial effect on the financial statements.
- 12 We have no knowledge of any allegations of fraud or suspected fraud affecting the District's financial statements communicated by employees, former employees, analysts, regulators or others.
- 13 We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

Recognition, measurement and disclosure

- 14 We believe that the significant assumptions used by us in making accounting estimates, including those used in arriving at the fair values of financial instruments as measured and disclosed in the financial statements, are reasonable and appropriate in the circumstances.
- 15 We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities, both financial and non-financial, reflected in the financial statements.
- 16 All related party transactions have been appropriately measured and disclosed in the financial statements. Key management personnel have not identified related party transactions that may have occurred at a value different from that which would have been arrived at if the parties were unrelated.
- 17 The nature of all material measurement uncertainties has been appropriately disclosed in the financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.
- 18 All outstanding and possible claims, whether or not they have been discussed with legal counsel, have been disclosed to you and are appropriately reflected in the financial statements.
- 19 All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
- 20 All "off-balance sheet" financial instruments have been properly recorded or disclosed in the financial statements.

- 21 With respect to environmental matters:
- a) at year end, there were no liabilities or contingencies that have not already been disclosed to you;
 - b) liabilities or contingencies have been recognized, measured and disclosed, as appropriate, in the financial statements; and
 - c) commitments have been measured and disclosed, as appropriate, in the financial statements.
- 22 The District has satisfactory title to (or lease interest in) all assets, and there are no liens or encumbrances on the District's assets nor has any been pledged as collateral except as noted in the financial statements.
- 23 We have disclosed to you, and the District has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
- 24 The Goods and Services Tax (GST) transactions recorded by the District are in accordance with the federal and provincial regulations. The GST liability/receivable amounts recorded by the District are considered complete.
- 25 Employee future benefit costs, assets, and obligations have been determined, accounted for and disclosed in accordance with the requirements of Section *PS 3255 Post-employment benefits, compensated absences and termination benefits* of the Chartered Professional Accountants (CPA) Public Sector Accounting Handbook.
- 26 Except for the impact of COVID-19, there have been no events subsequent to the balance sheet date up to the date hereof that would require recognition or disclosure in the financial statements other than the events disclosed in the notes to the financial statements. Further, there have been no events subsequent to the date of the comparative financial statements that would require adjustment of those financial statements and related notes.

Other

- 27 We have considered whether or not events have occurred or conditions exist which may cast significant doubt on the District's ability to continue as a going concern and have concluded that no such events or conditions are evident.
- 28 We understand that the Canadian Auditing Standards require you to perform certain procedures with respect to Other Information. To enable you to complete this work, we will provide you with the final version of our Financial Statement Discussion and Analysis, as soon as it is available and before it is issued by us.

Yours very truly,

Ryan Stierman, CFO/Secretary-Treasurer, CPA, CMA, MBA

Delta Carmichael, Assistant Secretary-Treasurer, CPA, CA

Valerie Dougans, Finance Manager, CPA, CA