Appendix F

Capital Regional District

Audit Findings Report

British Columbia, Canada

Fiscal year ended December 31, 2020

Making a difference...together

KPMG

Capital Regional District

Audit Findings Report for the year ended December 31, 2020

KPMG LLP

Prepared for the meeting on May 5, 2021

kpmg.ca/audit

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Executive summary

Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a member of the Board of Directors, in your review of the results of our audit of the consolidated financial statements (hereinafter referred to as the “financial statements”) of Capital Regional District (the District) as at and for the year ended December 31, 2020. This Audit Findings Report builds on the Audit Plan we presented to the Board of Directors on January 6, 2021.

What’s new in fiscal 2020

There have been changes in fiscal 2020 which impacted financial reporting and our audit:

- COVID-19 pandemic – See pages 5-6
- New auditing standard for estimates – See page 6

Changes from the audit plan

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

Finalizing the audit

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

– Completing our discussions with the Board of Directors;
– Obtaining the signed management representation letter;
– Obtaining evidence of the Board of Directors’ approval of the financial statements; and,
– Completing subsequent event review procedures up to the date of the Board of Directors’ approval of the financial statements.

We will update the Board of Directors on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors’ report, a draft of which is attached to the enclosed draft financial statements, will be dated upon the completion of any remaining procedures.

Areas of audit focus

At the planning stage of the audit we discussed with you areas of audit focus. We are satisfied that our work has appropriately dealt with the focus areas identified.

See pages 8 to 10 for the audit findings related to these areas of audit focus.

Adjustments and differences

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

We identified four adjustments that were communicated to management and subsequently corrected in the financial statements.

We identified two misstatements that remain uncorrected. Management have decided not to correct these differences and in their judgment they are not material to the financial statements. We concur with management’s representation that the differences are not material to the financial statements. Accordingly, the differences have no effect on our auditors’ report.

Executive summary (continued)

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

The presentation and disclosure of the financial statements are, in all material respects, in accordance with Canadian public sector accounting standards. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter.

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting.

We have issued a separate management letter with control recommendations in areas not considered to be significant deficiencies in internal controls over financial reporting.

Independence

We confirm that we are independent with respect to the District within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from January 1, 2020 up to the date of this report.

Current developments

Please refer to Appendix 3 for the current developments updates, including COVID-19 resources.

What's new in 2020

COVID-19 pandemic

Areas of impact	Key observations
CRD's financial reporting impacts	- We considered impacts to financial reporting due to the COVID-19 pandemic and the increased disclosures needed in the financial statements as a result of the significant judgements applied. Suggestions were provided to management to enhance disclosures which have been reflected in the financial statements.
CRD's internal control over financial reporting	- There were minimal changes to internal controls over financial reporting due to the COVID-19 pandemic as the District did not move to a fully remote working environment and was able to maintain its existing internal controls and processes.
Risk assessment	- We performed a more thorough risk assessment specifically targeted at the impacts of the COVID-19 pandemic, including an assessment of fraud risk factors (i.e. conditions or events that may be indicative of an incentive/pressure to commit fraud, opportunities to commit fraud, rationalizations of committing fraud).
Working remotely	- We worked both remotely and onsite. We used virtual work rooms, video conferencing, and internally shared team sites to collaborate in real-time, both amongst the audit team as well as with management. - We used secure technologies to conduct walkthroughs, perform tests of controls and substantive tests. - We increased our professional skepticism when evaluating electronic evidence received and performed additional procedures to validate the authenticity and reliability of electronic information used as audit evidence.
Direction and supervision of the audit	- The Senior Manager and Engagement Partner were actively involved in determining the impact that the COVID-19 pandemic had on the audit (as discussed above), including the impact on the District's financial reporting and the District's internal control over financial reporting. - The Senior Manager and Engagement Partner implemented new supervision processes to deal with working in a remote environment, and our audit approach allowed us to manage the audit using meaningful milestones and frequent touch points.
Substantive testing – Response	- For those areas of the financial statements which were impacted by COVID-19 during the year (payroll costs and sale of services), we changed our substantive analytical procedures to incorporate the impacts of the pandemic on these balances.

What's new in 2020 (continued)

New auditing standard

Standard	Key observations
CAS 540, Auditing Accounting Estimates and Related Disclosures	- The new standard was applied on all estimates within the financial statements that had a risk of material misstatement due to estimation uncertainty. - We assessed the risk of material misstatement due to estimation uncertainty for all estimates within the financial statements and not just “key estimates”, “critical accounting estimates”, or “estimates with significant risk”. In assessing this risk, we considered the degree of complexity, uncertainty and subjectivity involved in making each accounting estimate to determine the level of audit response. - We considered the potential for management bias. - The granularity and complexity of the new standard along with our interpretation of the application of that standard necessitated more planning and discussion and increased involvement of more senior members of the engagement team. - We determined that one estimate (landfill closure and post-closure liability) had a risk of material misstatement due to estimation uncertainty that was greater than remote. - See page 10 under Areas of Audit Focus for a summary of our audit approach and findings.

Audit risks

Professional requirements	Why is this significant?
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.

Our response

Our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:

- Testing of journal entries and other adjustments throughout the period and during the post-closing period for financial statement preparation.
- Evaluating the business rationale of significant unusual transactions.

Significant findings

There were no issues noted in our testing.

Areas of audit focus

Other area of focus	Why are we focusing here?
Wastewater treatment project (WTP)	This is a significant project for CRD, involves a significant value of expenditure, met substantial completion in 2020 and is currently being commissioned, and significant management judgment may be required over recognition of impairment.

Our response

- The CRD's Wastewater Treatment Project ("WTP") includes construction of the wastewater treatment plant, residuals treatment facility, and the conveyance system and is budgeted at a total cost of $775M.
- In December 2020, the District began providing tertiary treatment for wastewater and reached substantial completion of the McLoughlin Point Wastewater Treatment Plant. This milestone triggered a transfer of work in progress to in use and final claims for funding from third parties.
- Costs capitalized for the WTP in 2020 were $121M; upon substantial completion of the plant in 2020, $421M in costs were transferred from work in progress to other capital asset classes (including engineering structures, buildings, and other assets).
- We performed substantive audit procedures over a sample of capital additions, agreeing samples to source documentation.
- We verified the capital costs transferred from work in progress to in use by comparing the total costs included in work in progress since the beginning of the project in 2017 to 2020 to the transfer to amounts capitalized as in use.
- We reviewed the WTP Board minutes and verified the completeness of liabilities and contingent liabilities related to the WTP.
- We performed a walkthrough of the procurement processes related to the WTP and related controls over expenditures and did not note any significant deficiencies.
- We reviewed management's analysis over impairment and concur with management's assessment that no costs were required to be written off in 2020.
- In 2020, $19M of federal grants and $124M in provincial grants were received and recognized as revenue related to WTP. We inspected the grant claims, agreed them to cash receipt and noted appropriate eligible expenses related to grant terms.
- We noted $17M of grant holdbacks are outstanding from the Federal Government which was claimed in 2020 and received in 2021 upon completion of final requirements under the funding agreement.

Significant findings

- There were no issues noted in our testing of capital additions and the transfer of work in progress to in use.
- We recommended the grant holdback be recognized as revenue and receivable in 2020 to align with when the revenue was earned and final claim submitted. This adjustment has been recognized in the financial statements.

Areas of audit focus (continued)

Area of audit focus	Why are we focusing here?
Regional Housing First Program	On November 2, 2020 and November 20, 2020, the District entered into 60-year prepaid leases and 35-year operator agreements with Capital Regional Housing Corporation regarding West Park and Spencer Close respectively. These prepaid leases were initially funded through short-term financing obtained by CRHC which was converted into mortgages subsequent to year-end.

Our response

- RHFP is a partnership between three levels of government that have committed to fund affordable or supportive housing projects in the CRD. BC Housing, CMHC and CRD (through CRD, CRHC and CRHD) have committed to invest $40M each to develop and acquire approximately 300 (at $300,000 each) new housing units that will have a rental rate equal to the Province's income assistance shelter rate ($375) for residents of the region experiencing chronic homelessness.
- Either BC Housing or CRD/CRD entities will purchase the approximately 20% provincial assistance rate units as an equity contribution. The operator (non-profit organization or CRHC) operates 100% of the units and maintains ownership of the remaining approximately 80% of units (or lease agreement with BC Housing or CRD/CRD entity). CMHC's $30M contribution is in the form of a grant to the CRD, where the CRD holds ownership of those units.
- In November 2020, the CRD purchased West Park and Spencer Close under the RHFP. The properties were purchased for $29.4M and $28.4M respectively, including closing costs. CRD owns 100% of the units and has entered into a 60-year prepaid lease agreement with the CRHC, and a 35-year operator agreement for the RHFP units.
- The purchase of the properties is funded by contributions from CMHC and a 60-year prepaid lease with CRHC. CRHC received short-term financing from BC Housing to fund the lease and closing costs. The short-term financing was converted into mortgages subsequent to year-end.
- We reviewed the related Board minutes and inquired with management on any changes or updates to this program.
- We performed substantive audit procedures by obtaining and reviewing contracts and agreements between CRD, CRHC, BC Housing, and CMHC.
- We agreed the purchase price allocated to the land and building to the costs capitalized with no issues.
- We concur with management's accounting treatment of the transaction in the financial statements, including the removal of inter-entity transactions between CRD and CRHC in the consolidated financial statements.

Significant findings

- There were no issues noted in our testing regarding the purchase of properties, financing and recognition of costs and debt by the District.
- We recommended the District consider a more precise estimate of amortization expense for material asset additions to align with when assets are placed in use during the year. The impact on amortization was not significant in 2020 and will be considered for future material asset additions.

Areas of audit focus (continued)

Area of audit focus	Why are we focusing here?
Hartland Landfill closure and post-closure costs	Landfill closure and post-closure costs (2020 - $11.3M, 2019 - $10.7M) are recognized in the financial statements including disclosure in the notes. Estimated costs are recognized annually as the capacity of the site is utilized.

Our response

- Closure and post-closure costs are a significant estimate recognized in the District's financial statements. Measurement involves multiple assumptions and data inputs including capacity available and used, future costs, discount rates, inflation rates, among others.
- The last detailed assessment of closure and post-closure costs by an external expert was performed in 2019. Management performed an analysis and updated significant assumptions in 2020 to estimate the liabilities and costs to be recognized in 2020.
- We performed more granular risk assessments of the elements of the estimate such as the method, the assumptions used, the data used and the application of the method.
- We assessed the degree of uncertainty, complexity, and subjectivity in the closure and post-closure cost estimate to determine the level of audit response. The higher the level of response, the more persuasive the audit evidence was needed.
- We evaluated the projections and discount rates used by management to determine the closure and post-closure liabilities for the landfill and verified the accuracy of management's calculations.

Significant findings

- Management's modelling used to calculate the liability was enhanced in 2020 and incorporated results of the external expert's work performed in 2019.
- Management's estimate of the liability and expense in 2020 included the impact of certain activities and programs to extend the life of the landfill that have not yet been approved or implemented. This assumption resulted in a longer useful life of the landfill and lower liability and expense compared to an estimate based on current practices in use.
- We recommended the liability and expense be estimated based on current practices in use, and the impact of future life extensions be incorporated at the time new programs are approved. An estimated understatement of liability and expense of $1,479,449 is noted as an unadjusted audit difference. Recognition of the adjustment may result in an expense in 2020 and recovery of expense in future years. Management has chosen not to adjust this difference in order to reduce volatility in the liability and expense as new programs are expected to be approved in the near future.
- Effective for the 2023 fiscal year, new accounting standards for asset retirement obligations will require a significant revaluation of the landfill liability and recognition of all closure and post-closure costs upfront rather than as capacity of the landfill is used. We recommend early planning for this transition as it will result in recognition of a liability sooner than current practice and a significant increase in net debt for financial reporting purposes. The change in accounting standard will not affect how the District decides to fund the liability through reserve funding.

Significant accounting policies and practices

Significant accounting policies

- There were no initial selections of or changes to the significant accounting polices and practices.
- There were no significant accounting policies in controversial or emerging areas.
- There were no material issues noted with the timing of the District's transactions in relation to the period in which they were recorded other than described in this report.
- There were no issues noted with the extent to which the financial statements are affected by a significant unusual transaction and extent of disclosure of such transactions.
- There were no issues noted with the extent to which the financial statements are affected by non-recurring amounts recognized during the period and extent of disclosure of such transactions.

Significant accounting estimates

- There were no issues noted with management's identification of accounting estimates.
- There were no issues noted with management's process for making accounting estimates other than described in this report.
- There were no indicators of possible management bias.
- There were no significant factors affecting the District's asset and liability carrying values.

Financial statement presentation and disclosure

- There were no issues noted with the judgments made, in formulating particularly sensitive financial statement disclosures.
- There were no issues noted with the overall neutrality, consistency, and clarity of the disclosures in the financial statements.
- There were no significant potential effects on the financial statements of significant risks, exposures and uncertainties.

Uncorrected differences and corrected adjustments

Differences and adjustments include disclosure differences and adjustments.

Professional standards require that we request of management and the Board of Directors that all identified differences be corrected. We have already made this request of management. Misstatements, including omissions, if any, related to financial statement presentation and disclosure items are in the management representation letter.

Uncorrected differences

We identified two adjustments that remain uncorrected:

- A net $360,649 estimated overstatement of annual surplus and understatement of liabilities due to the deferral of grants and methodology used to estimate the landfill liability.
- An overstatement of 2020 revenue and understatement of 2019 revenue of $563,047 due to timing of recognition of system developer charges earned and $248,134 for assets acquired in a prior year.

We concur with management's representation that the differences are not material to the financial statements. Accordingly, the differences have no effect on our auditors' report.

Corrected adjustments

We identified four adjustments that were communicated to management and subsequently corrected in the financial statements. Two adjustments did not have an impact on the annual surplus of the District. They relate primarily to presentation and classification of figures which are prepared only once a year for financial reporting purposes in accordance with Public Sector Accounting Standards. Management does not use these figures for financial decision making during the year.

- A decrease in cash and accounts payable of $262,562 to reflect payments made before year end.
- A decrease in sales of services revenue and other expenses by $729,615 for internal charges that are removed when preparing financial statements.
- A decrease in revenue and increase of development cost charges of $293,000 for amounts related to revenue earned in 2021.
- An increase in revenue from the Federal government of $17M for recognition of grant holdbacks on substantial completion of CAWTP.

Appendices

Appendix 1: Selected financial information

Appendix 2: Required communications

Appendix 3: Current developments and audit trends

Appendix 4: Management representation letter

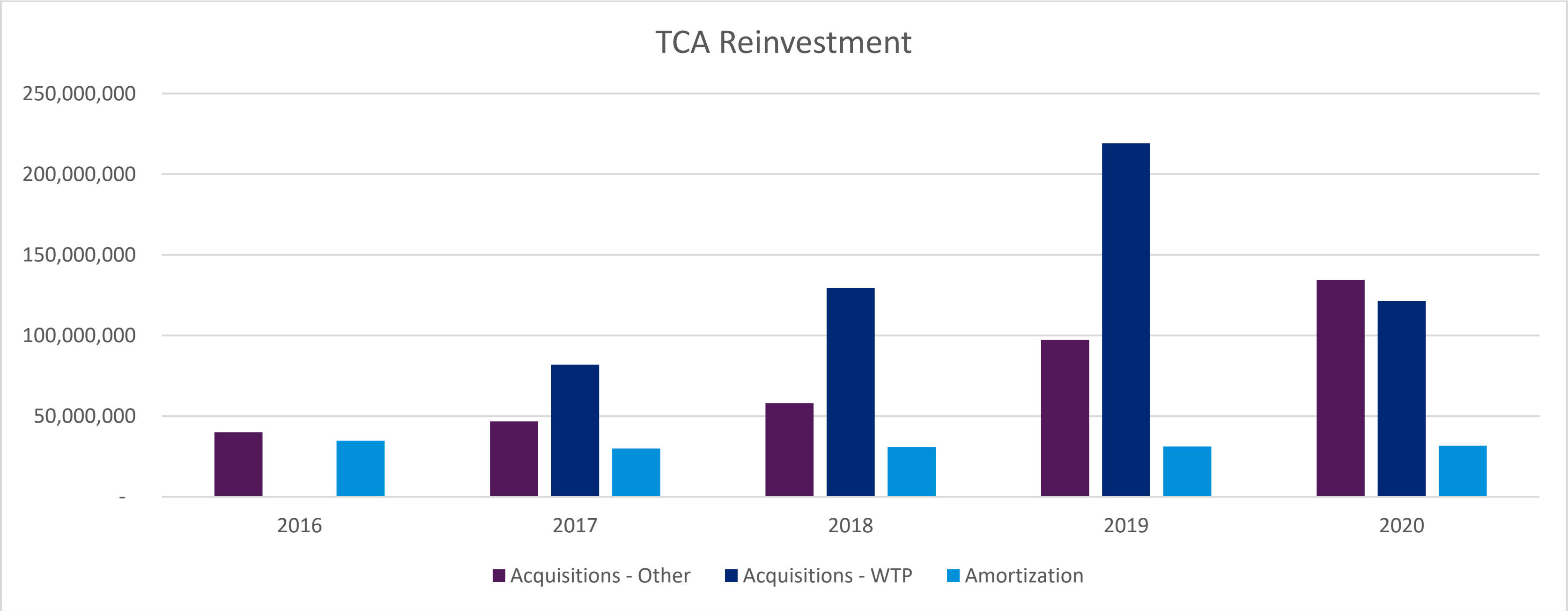
Appendix 1: Selected financial information

As part of the audit, there are certain key ratios and trends that we review. We share these ratios with the Board and Management and welcome any questions related to our interpretation of trends. The following financial information is taken from the annual audited financial statements prepared in accordance with Public Sector Accounting Standards. The accounting framework used in these financial statements differs from the framework used in the financial plan in that the rate-setting formula is based on a cash-basis and includes transfers from reserves and other unspent funds and planned capital acquisitions rather than amortization of capital assets.

Appendix 1: Selected financial information (continued)

Tangible Capital Asset (TCA) Reinvestment

TCA is the District's most significant asset and is funded by a combination of internal reserves and external financing. The following illustration depicts TCA acquisitions and amortization amounts for the past five years:



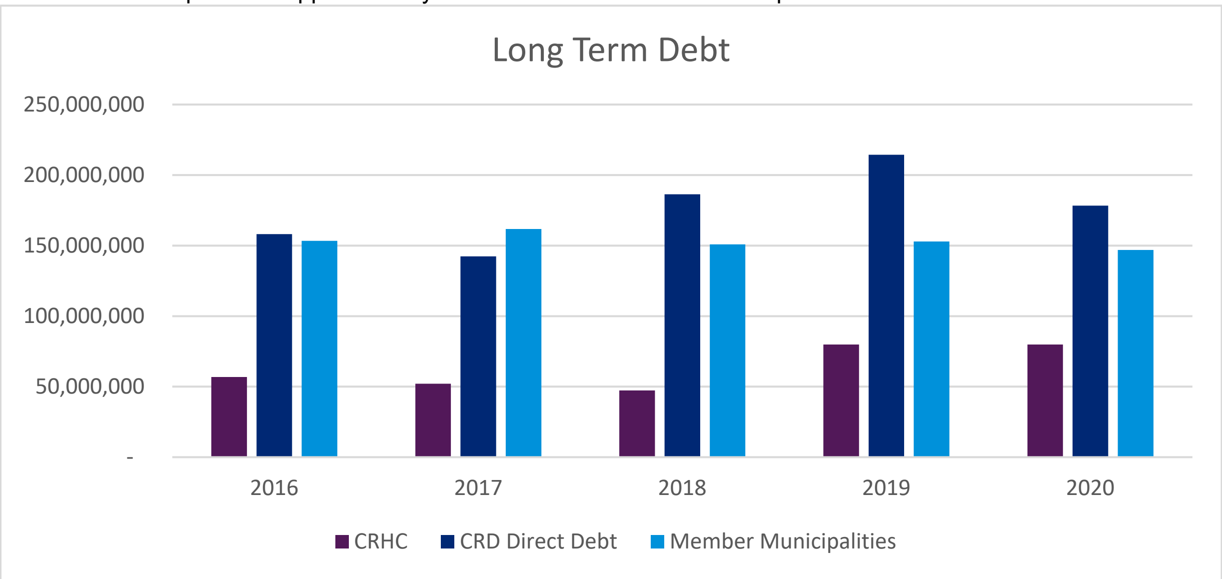
TCA acquisitions were relatively consistent in 2016 through 2018. From 2017 more significant capital additions were acquired under the Wastewater Treatment Project (WTP), which are shown separately in the chart above. TCA additions in 2019 and 2020 are higher than previous years due to the construction of and acquisition of properties under the Regional Housing First Program. TCA additions relating to the WTP grew in 2018 and 2019 and declined in 2020 due to the project nearing completion.

The value of amortization has remained relatively consistent over the past 5 years. From 2016 – 2020 the District has been replenishing capital assets at a faster pace than they are being used, mainly due to the additions resulting from the Wastewater Treatment Project. Total acquisitions are 7.5 times the value of annual amortization in 2020. In future years, amortization expense will increase due to the WTP being in use.

Appendix 1: Selected financial information (continued)

Long-term Debt

The District incurs debt directly, and on behalf of its member municipalities through agreements with the MFA. Repayments of interest and principal on long-term debt are included in the annual operating expenditure for each function. The Community Charter and Municipal Liabilities regulation provides that a municipality's (district's) annual cost of servicing its aggregate liabilities for the year cannot exceed 25% of its annual revenue for the previous year. Interest expense in 2020 represents approximately 13% of the District's revenue excluding government transfers and interest expense related to municipal borrowing equates to approximately 4.7% of revenue excluding government transfers. Debt represents approximately 10% of the net book value of capital assets.



CRD direct debt increased mostly in 2018 and 2019 in order to finance the Wastewater Treatment Project. In 2020, debt has started to decrease due to debt repayments exceeding new debt, including repayment of short-term facilities using proceeds of debt obtained in 2019. Between 2016 and 2020, CRD direct debt has increased by 13%.

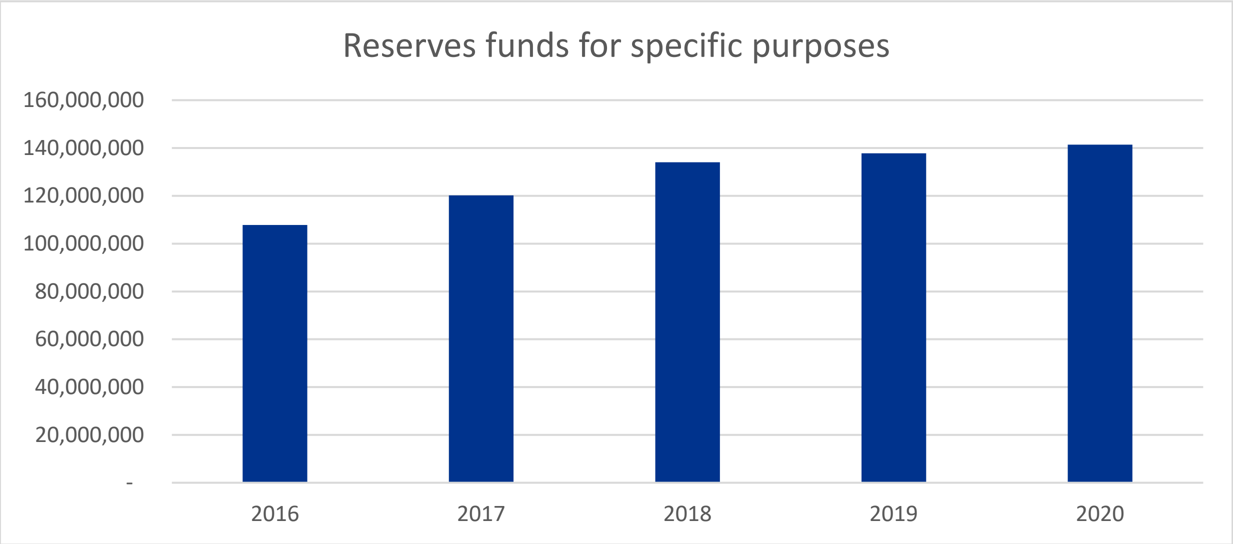
In addition, member municipalities' debt has increased steadily from 2016 to 2017. In 2018, there was a slight decrease in member debt consistent with the trend that in a low interest rate environment, more debt is held through short term facilities until project completion when a more precise amount of borrowing is determined and locked into long term financing. Short term borrowing by member municipalities is not included in the District's financial statements. There was a small decrease in member municipalities' debt in 2020.

The increase in CRHC debt in 2019 represents new debt obtained to fund the purchase of the RHFP Millstream Ridge/Treanor housing project. There was no significant change in 2020 as additional debt was offset by debt retirement. CRHC held $61.3M of short term financing in relation to the purchase of Spencer Close and West Park which is not included in the above chart; this was transferred to a long term mortgage subsequent to year end.

Appendix 1: Selected financial information (continued)

Reserves

The accumulated surplus for the District is made up of amounts invested in tangible capital assets, operating reserves, for both the District and Capital Region Housing Corporation, and reserves set aside for regional, sub-regional and local purposes. The amounts shown in the graph relate to reserve funds set aside for specific purposes as detailed in note 9 in the financial statements:



These reserves are tracked on a per service basis. Each year, the amount presented is the accumulated amount. Since 2016, the reserves have continued to grow at a consistent rate. In 2020, reserves increased by 2.6% over prior year and this was due primarily to increases in the Equipment Replacement Reserve, the Regional Parks Capital Reserve, the Solid Waste Operating Reserve, and the Capital Regional Housing Corporation Reserve. The increase was partially offset by decreases in the Solid Waste Capital Reserve, the S.P.W.W.W.S. Sewer Debt Reserve, the Trunk Sewers and Sewage Disposal Facilities Capital Reserve, the LWMP Core and WS Operating Reserve Fund and the Salt Spring Island Transport Capital Reserve. Compared to a significant increase in capital assets, reserves have stayed relatively constant.

Appendix 2: Required communications

Draft auditors’ report

The conclusion of our audit is set out in our draft auditors’ report attached to the draft financial statements.

Management representation letter

In accordance with professional standards, a copy of the management representation letter is included in Appendix 4.

Independence

In accordance with professional standards, we have confirmed our independence.

Appendix 3: Current developments and audit trends

Current Developments, created by the KPMG Public Sector and Not-for-Profit Practice, summarizes regulatory and governance matters impacting public sector entities today, or expected to impact them over the next few years. We provide this information to help public sector entities understand upcoming changes and challenges they may face in their industry. Some of these developments may not impact the District directly, but we believe it is important for the Board of Directors to understand what is happening in the sector.

Public Sector Accounting Standards

Standard	Summary and implications
Impact of COVID-19	– In response to the impact of COVID-19 on public sector entities, PSAB has approved deferral of all upcoming accounting standards by one year and will issue non-authoritative guidance on the effects of COVID-19.
Asset Retirement Obligations	– The new standard is effective for fiscal years beginning on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard will require the public sector District to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector District will have to: • Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.

Appendix 3: Current developments and audit trends (continued)

Standard	Summary and implications
Revenue	– The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19. – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that in the case of revenues arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. – The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector district the right to the revenue.
Purchased Intangibles	– In October 2019, PSAB approved a proposal to allow public sector entities to recognize intangibles purchased through an exchange transaction. Practitioners are expected to use the definition of an asset, the general recognition criteria and the GAAP hierarchy to account for purchased intangibles. – PSAB has approved Public Sector Guideline 8 which allows recognition of intangibles purchased through an exchange transaction. Narrow-scope amendments were made to Section PS 1000 Financial statement concepts to remove prohibition on recognition of intangibles purchased through exchange transactions and PS 1201 Financial statement presentation to remove the requirement to disclose that purchased intangibles are not recognized. – The effective date is April 1, 2023 with early adoption permitted. Application may be retroactive or prospective.

Appendix 3: Current developments and audit trends (continued)

Standard	Summary and implications
Public Private Partnerships ("P3")	– PSAB has proposed new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. PSAB in the process of reviewing feedback provided by stakeholders on the exposure draft. – The exposure draft proposes that recognition of infrastructure by the public sector district would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends. – The exposure draft proposes that the public sector district recognize a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. – The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project. – The final standard was approved in December 2020 with an issuance date of April 1, 2021 and an effective date of April 1, 2023.
Concepts Underlying Financial Performance	– PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – PSAB has released four exposure drafts for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. Comments on the exposure drafts are due in May 2021. – PSAB is proposing a revised, ten chapter conceptual framework intended to replace PS 1000 *Financial Statement Concepts* and PS 1100 *Financial Statement Objectives*. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. – In addition, PSAB is proposing: • Relocation of the net debt indicator to its own statement and the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained. • Separating liabilities into financial liabilities and non-financial liabilities. • Restructuring the statement of financial position to present non-financial assets before liabilities. • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). • Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called "accumulated other". • A new provision whereby an entity can use an amended budget in certain circumstances. • Inclusion of disclosures related to risks and uncertainties that could affect the district's financial position.

Appendix 3: Current developments and audit trends (continued)

Our discussions with you, our audit opinion and what KPMG is seeing in the marketplace - both from an audit and industry perspective - indicate the following is specific information that will be of particular interest to you. We would, of course, be happy to further discuss this information with you at your convenience.

Thought leadership

Thought leadership	Overview	Link
2020 Audit Quality and Transparency Report	Learn about KPMG's ongoing commitment to continuous audit quality improvement. KPMG maintains a system of audit quality control that is designed to meet or exceed the requirements of the applicable professional standards. In fact, we are continuously reviewing our policies and practices to ensure we're aligned with all regulatory and professional requirements, which if our firm commitment to each other as well as to our clients and to the capital markets we serve.	Link to report
Put your data to work to gain competitive advantage	There is no "digital economy". The economy is digital and "digits" refer to data. Data is the lifeblood of every organization on this planet and organizations that embrace this notion are well positioned to grow as industries continue to evolve and disrupt at an ever increasing pace.	Link to report
Predictive analytics, it works	CEOs recognize the value that predictive analytics delivers to their decision-making process.	Link to report
Creating the workforce of the future	You can't transform the organization without also transforming the workforce. It may be time to rethink the people strategy.	Link to report
Accelerate	Introducing KPMG's 2021 edition of Accelerate, a series of articles and videos offering insight into the key issues driving Board agendas, including: – Cyber risk – Internal control over financial reporting, disclosures and regulation – Digital disruption – Enterprise risk management – The evolution of environmental, social and governance (ESG) and disclosures	Link to report
Board Leadership Centre	KPMG provides leading insights to help Board members maximize boardroom opportunities.	Link to site

Appendix 3: Current developments and audit trends (continued)

COVID-19 pandemic resources

Resources	Summary	Links
Resources for management and the Board of Directors	Please visit our COVID-19 website for resources regarding the topics below. This site is being updated daily based on information being released by federal, provincial and municipal news releases. – Business continuity guide – Immediate actions to take – Medium to long-term actions – Tax considerations and a summary of federal and provincial programs – Legal considerations – Financial reporting and audit considerations – Global perspectives	COVID-19 Alerts (Live Link)

Appendix 4: Management representations letter

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of Capital Regional District ("the Entity") as at and for the period ended December 31, 2020.

General:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in Attachment I to this letter.
We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Responsibilities:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated April 8, 2021, including for:
   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
   b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including:
      (i) the names of all related parties and information regarding all relationships and transactions with related parties; and
      (ii) the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of the board of directors and committees of the board of directors that may affect the financial statements. All significant actions are included in such summaries.
   c) providing you with unrestricted access to such relevant information.
   d) providing you with complete responses to all enquiries made by you during the engagement.
   e) providing you with additional information that you may request from us for the purpose of the engagement.
   f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.
   g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
   h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

Internal control over financial reporting:

2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

Appendix 4: Management Representation Letter (continued)

Fraud & non-compliance with laws and regulations

3) We have disclosed to you:

   a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
   b) all information in relation to fraud or suspected fraud that we are aware of that involves:
      - management;
      - employees who have significant roles in internal control over financial reporting; or
      - others

      where such fraud or suspected fraud could have a material effect on the financial statements.
   c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.
   d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
   e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Subsequent events:

4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

Related parties:

5) We have disclosed to you the identity of the Entity's related parties.
6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Estimates:

8) The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

Going concern:

9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.
10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

Appendix 4: Management Representation Letter (continued)

Misstatements:

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

12) We approve the corrected misstatements identified by you during the audit described in Attachment II.

Non-SEC registrants or non-reporting issuers:

13) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Yours very truly,

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Mr. Robert Lapham, Chief Administrative Office

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Mr. Nelson Chan, Chief Financial Officer

Attachment I – Definitions

Materiality

Certain representations in this letter are described as being limited to matters that are material. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances, and are affected by perception of the needs of, or the characteristics of, the users of the financial statements and, the size or nature of a misstatement, or a combination of both while also considering the entity's own circumstances.

Fraud & Error

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Attachment II – Summary of Audit Misstatement Schedule

Year ended December 31, 2020

Corrected misstatements

- A decrease in cash and accounts payable of $262,562 to reflect payments made before year end.
- A decrease in sales of services revenue and other expenses by $729,615 for elimination of internal charges.
- A decrease in revenue and increase of development cost charges of $293,000 for amounts related to revenue earned in 2021.
- An increase in revenue from the Federal government of $17M for recognition of grant holdbacks on substantial completion of CAWTP.
- Within Note 14 to the financial statements, an increase in federal government grants and decrease in provincial government grants of $1,906,394 to align with the source of funds received.

Uncorrected misstatements

	Statement of operations effect	Statement of financial position effect		
Description	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Accumulated Surplus (Decrease) Increase**
Understatement of landfill liability and expense for methodology based on current practices in use	(1,479,449)	-	1,479,449	(1,479,449)
Overstatement of system developer charges earned in 2019 rather than 2020	(563,047)	-	-	-
Overstatement of revenue for assets acquired in previous years	(248,134)	-	-	-
Understatement of revenue for recognition of Safe Restart Grant on receipt	1,118,800	-	(1,118,800)	1,118,800

Year ended December 31, 2019

Uncorrected misstatements

	Statement of operations effect	Statement of financial position effect		
Description	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Accumulated Surplus (Decrease) Increase**
Understatement of system developer charges earned in 2019 rather than 2020	563,047	-	(563,047)	563,047
Understatement of assets and accumulated surplus for assets acquired in previous years	-	248,134	-	248,134

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