KPMG

Capital Regional District

Audit Planning Report
for the year ended December 31, 2020

KPMG LLP

Prepared for the Finance Committee's meeting on January 6, 2021

kpmg.ca/audit

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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

Areas of focus for financial reporting

Our audit of the Capital Regional District (the “Entity” or “CRD”) is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- Financial reporting considerations of COVID-19
- Presumed fraud risk of management override of controls

See pages 3-9.

Effective communication

We are committed to transparent and thorough reporting of issues to management and the Board of Directors. This is achieved through formal and informal meetings and communications throughout the year. If you have any comments you would like to bring to our attention, please contact Lenora Lee.

Audit materiality

Materiality has been determined based on total expenses. We have determined materiality to be $4,200,000 (2019 - $4,200,000).

See page 4.

Quality control and independence

We are independent and have a robust and consistent system of quality control. We provide complete transparency on all services and follow the Board of Directors’ approved protocols where required.

See page 10.

New auditing standards

A new auditing standard, CAS 540 Auditing Accounting Estimates and Related Disclosures, is effective for CRD’s 2020 fiscal year.

See page 12 for further details.

Current developments

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

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Group audit scope

Significance of component	Entities	# of components	Procedures performed by
Individually financially significant	*Capital Regional District (CRD)*	1	Group team – KPMG Victoria
Not significant	*Capital Regional Housing Corporation (CRHC)*	1	Group team – KPMG Victoria

Audit and financial reporting impacts of COVID-19

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. As the COVID-19 pandemic evolves, CRD will need to continue to assess the impact on its operations and finances and consider the implications on financial reporting. We have analyzed the impact of the COVID-19 pandemic situation on the audit of the financial statements for the year ended December 31, 2020 and discussed the audit and financial reporting implications with management based on what has occurred to the date of this report.

We provide the following information for the review of the Board of Directors and describe the additional procedures that we will be performing. As the COVID-19 pandemic is a dynamic situation, we will continue to update our Audit Plan as the situation warrants. We will communicate any additional changes to our Audit Plan to the Board of Directors in our Audit Findings Report.

Considerations	Audit implications
Conducting the audit work	– We plan to undertake a primarily remote audit again this year. We have established a secure ShareFile platform to facilitate the sharing of information with management. We have discussed the details of the audit with management, and we are ready to undertake the audit as planned and on schedule. The prior year audit was performed primarily remotely.
General considerations	– We will obtain an understanding of what changes to process activities and controls have been implemented to determine if the planned audit procedures are appropriate. We have conducted preliminary discussions with management and will confirm our understanding of any significant changes by performing walkthroughs of transactions.
Planning and risk assessment	– We have determined materiality based on budgeted total expenses. – We anticipate the operational impacts of COVID to be evident in multiple areas of CRD's financial statements. Where we have planned to perform analytical procedures we will adjust our expectations in line with known COVID impacts (ex. reduced auxiliary hours worked, decreases in recreation revenues and expenses, etc.)
Financial reporting	– Currently, we expect that COVID-19 will continue to impact CRD's operations and finances beyond December 31, 2020. – An assessment should be made by management of any COVID-19 financial implications. – Significant actions undertaken by CRD should be disclosed in a note to the financial statements, including a statement as to whether or not these factors present uncertainty over future cash flows, cause significant changes to assets and liabilities, and/or significantly impact future operations. Measurement of the estimated financial effect should be disclosed, or it should be stated if the effect is not determinable. – We will work with management to customize the wording of the COVID related disclosures for CRD's specific situation. – Refer to our COVID-19 Financial Reporting site.

Materiality

Materiality is used to identify risks of material misstatements, develop an appropriate audit response to such risks, and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors. To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality. Professional standards require us 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.

Materiality determination	Comments	Amount
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was $4.2 million. Materiality when evaluating CRD non-consolidated operations (excluding CRHC operations) is $4 million.	$4.2 million
Benchmark	Based on budgeted total expenses. In previous years we have used prior year audited total expenses, however, to reflect growth and potential changes due to COVID-19, we have used budgeted total expenses this year. The prior year benchmark was based on 2018 audited total expenses of $164.7 million.	$177.9 million
% of Benchmark	The prescribed range is between 0.5% and 3.0% of the benchmark. The corresponding percentage for the prior year's audit was 2.55%.	2.36%
Audit misstatement posting threshold	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the prior year's audit was $200,000.	$200,000

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We will report to the Board of Directors:

- Corrected audit misstatements
- Uncorrected audit misstatements

Audit risks

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 revenue recognition can be rebutted, but the risk of management override of control cannot, since 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.

Significant financial reporting risk	Why is it significant?
Fraud risk from revenue recognition	This is a presumed fraud risk. The risk of fraud from revenue recognition has been rebutted.
Fraud risk from management override of controls.	This is a presumed fraud risk. There are no 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 and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

Professional standards require that we obtain your view on the risk of fraud. We make similar inquiries to management as part of our planning process:

– 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 behavior 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 CRD?

– How do you exercise effective oversight of management’s processes for identifying and responding to the risk of fraud in CRD and internal controls that management has established to mitigate these fraud risks?

– Has CRD entered into any significant unusual transactions?

Areas of focus

Other areas of focus	Why are we focusing here?
Wastewater treatment project (WTP)	This is a significant project for CRD, involves a significant value of expenditure and significant management judgment may be required over recognition of impairment.

Our audit approach

- We will review the Project Board minutes.
- We will perform a walkthrough of the procurement process related to the WTP and expenditure controls in place.
- We will select a sample of and obtain supporting documentation for assets acquired/expenditures incurred. This will include a review of the classification of the assets and transfer from work-in-progress to other capital assets categories (as is consistent with the substantial completion of the project).
- We will verify the completeness of liabilities and contingent liabilities related to the WTP.
- CRD management will perform an evaluation of the capital costs incurred to date and make a determination on any possible provisions for assets that will not contribute to future service potential. We will review the CRD's process for identifying potential impairment to determine the scope of potential issues and focus of our audit effort.
- For items that CRD has assessed as impaired, we will verify the accuracy of the impairment.
- We will review government grants recognized as revenue in relation to the WTP by inspecting grant claims, agreeing them to cash receipt and appropriate eligible expenses related to grant terms.

Areas of focus (continued)

Other areas of focus	Why are we focusing here?
Regional Housing First Program	This was a new business model for CRD in prior period and involves significant funding, capital asset expenditure and new transactions between CRD and CRHC.

Our audit approach

- We will review the Board meeting minutes and any related committees for this program.
- We will obtain and review the contracts and agreements between CRD, CRHC, BC Housing and CMHC.
- Significant funding received and expenses incurred during 2020 will be compared to bank statements, contractual agreements and invoices.
- We will assess management's accounting and disclosures for the transactions related to the program.

Areas of focus (continued)

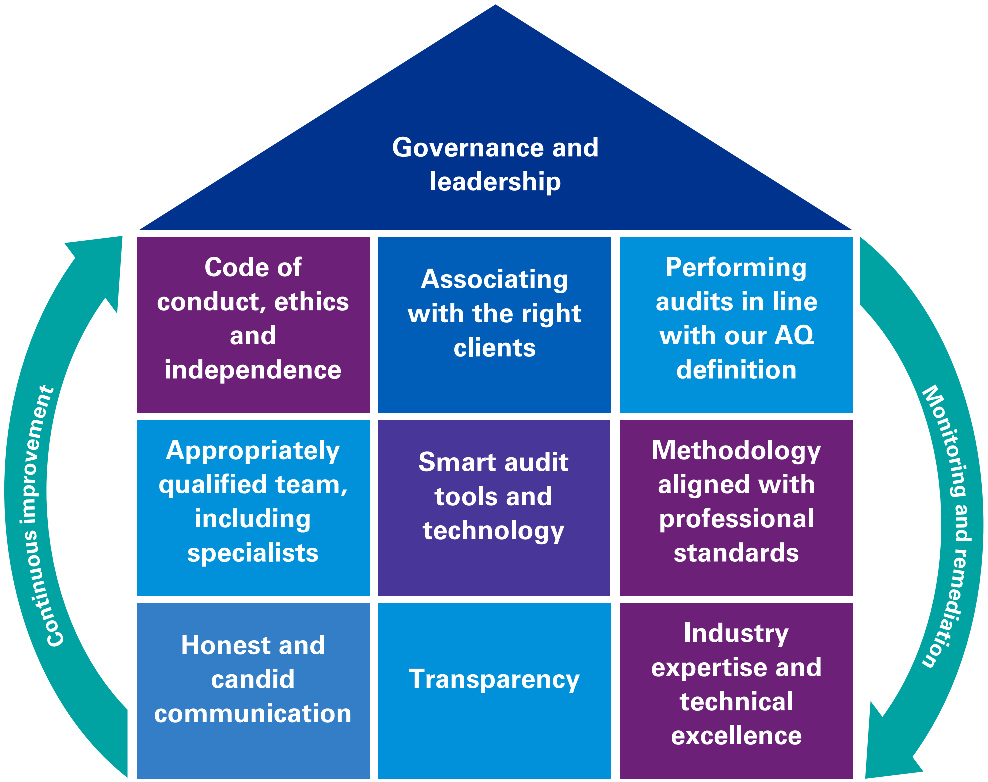
Other areas of focus	Why are we focusing here?
Hartland Landfill closure and post-closure costs	Landfill closure and post-closure costs are recognized in the financial statements including disclosure in the notes. This is a significant estimate for audit purposes as it involves multiple assumptions which drive uncertainty over the future costs.

Our audit approach

- Closure and post-closure costs are a significant estimate recognized in the District's financial statements. Measurement involves a number of inputs including capacity available and used, future costs, discount rates and inflation rates, among others.
- The last detailed assessment of costs by an external expert was performed in 1995. Management perform an analysis and update significant assumptions in subsequent years, including 2020.
- We will discuss the projections and inputs used to determine the closure and post-closure liabilities for the landfill with management and verify the accuracy of management's disclosed liabilities. This will be conducted in accordance with the requirements in CAS 540, Auditing Accounting Estimates and Related Disclosures (see page 11).

Audit quality and transparency

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 summarizes the key elements of our quality control system.



Audit Quality Framework

What do we mean by audit quality?

Audit Quality (AQ) is at the core of everything we do at KPMG.

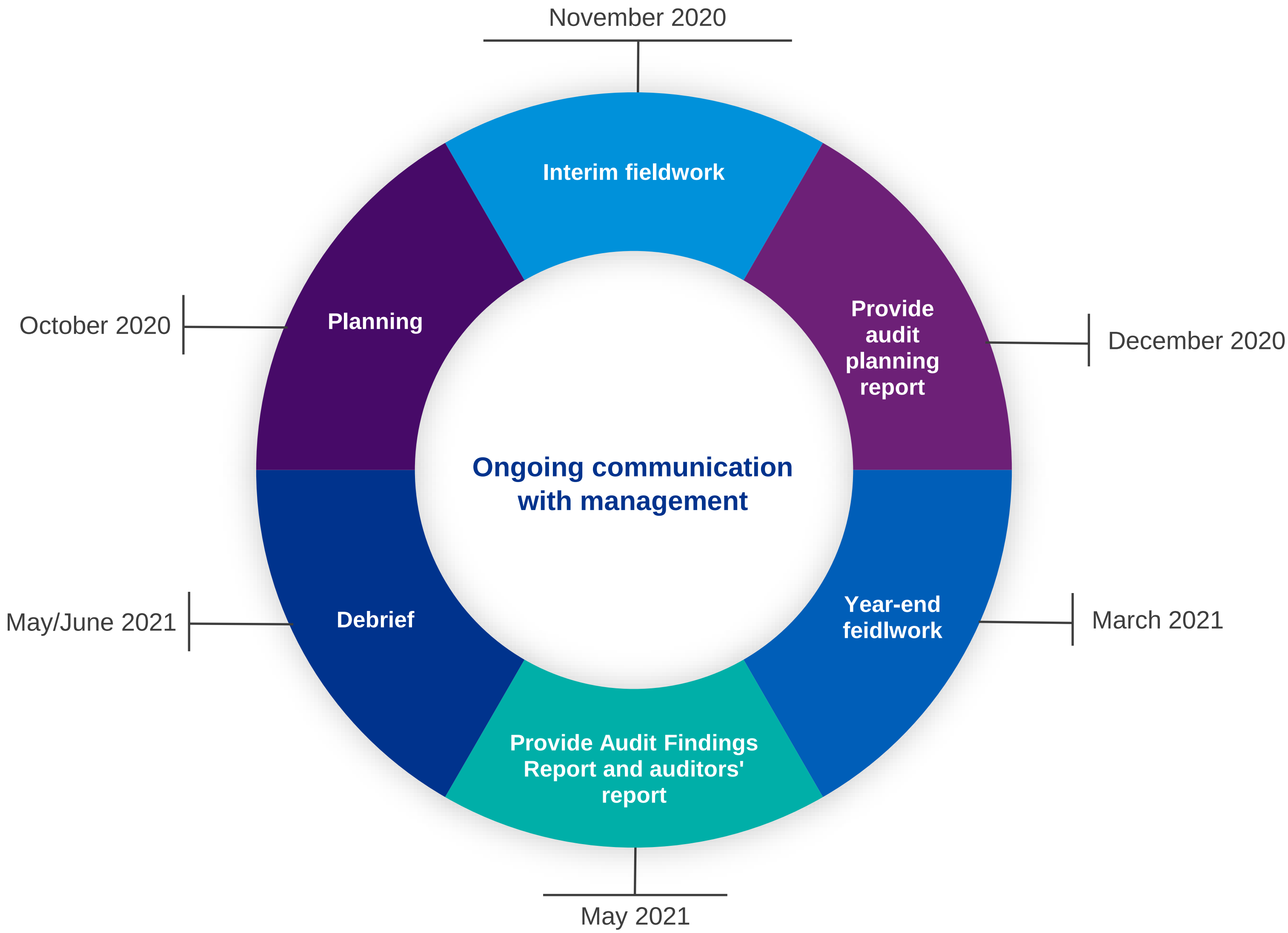
We believe that it is not just about reaching the right opinion, but how we reach that opinion.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls, and
- All of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics,** and **integrity**.

Our AQ Framework summarises how we deliver AQ. Visit our Audit Quality Resources page for more information including access to our Audit Quality and Transparency report.

Key deliverables and milestones



New audit standards

New auditing standards that are effective for the current year are as follows:

Standard	Key observations	Reference
CAS 540, Auditing Accounting Estimates and Related Disclosures **Effective for audits of Entities with year-ends on or after December 15, 2020**	**Expected impact on the audit:** — more emphasis on the need for exercising professional skepticism — more granular risk assessment to address each of the components in an estimate (method, data, assumptions) — more granular audit response designed to specifically address each of the components in an estimate (method, data, assumptions) — more focus on how we respond to levels of estimation uncertainty — more emphasis on auditing disclosures related to accounting estimates — more detailed written representations required from management	CPA Canada Client Briefing

Appendices

Content

Appendix 1: Required communications

Auditors' report	Engagement letter
A copy of our draft auditors' report setting out the conclusion of our audit will be provided at the completion of the audit.	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 findings report	**Management representation letter**
At the completion of the audit, we will provide our findings report to the Board of Directors.	We will obtain from management certain representations at the completion of the audit. In accordance with professional standards, a copy of the representation letter will be provided to the Board of Directors.
Independence	**Internal control deficiencies**
At the completion of our audit, we will re-confirm our independence to the Board of Directors.	Control deficiencies identified during the audit will be communicated to management and the Board of Directors.

Appendix 2: KPMG's audit approach and methodology

Collaboration in the audit
A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team.

Issue identification
Continuous updates on audit progress, risks and findings before issues become events.

Data-driven risk assessment
Automated identification of transactions with unexpected or unusual account combinations – helping focus on higher risk transactions and outliers.

Deep industry insights
Bringing intelligence and clarity to complex issues, regulations and standards.

Analysis of complete populations
Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes.

Reporting
Interactive reporting of unusual patterns and trends with the ability to drill down to individual transactions.

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 CRD directly, but we believe it is important for the Board of Directors to understand what is happening in the sector.

New 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 entity 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 entity 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 entity the right to the revenue.
Financial Instruments and Foreign Currency Translation	– The accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* are effective for fiscal years commencing on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. – Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. – Hedge accounting is not permitted. – A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. – In July 2020, PSAB approved federal government narrow-scope amendments to PS3450 *Financial Instruments* which will be included in the Handbook in the fall of 2020. Based on stakeholder feedback, PSAB is considering other narrow-scope amendments related to the presentation and foreign currency requirements in PS3450 *Financial Instruments*. The exposure drafts will be released in summer 2020 with a 90-day comment period.
Employee Future Benefit Obligations	– PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. In July 2020, PSAB approved a revised project plan. – PSAB intends to use principles from International Public Sector Accounting Standard 39 *Employee Benefits* as a starting point to develop the Canadian standard. – Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues.

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 entity 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 entity 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, with a liability of the same amount if one exists. Cost would be measured by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.
International Strategy	– PSAB has reviewed all proposed options for its international strategy, and in accordance with its due process, approved the option to adapt International Public Sector Accounting Standards when developing future standards. PSAB noted that the decision will apply to all projects beginning on or after April 1, 2021.
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. – Based on stakeholder feedback, PSAB will develop a Public Sector Guideline to clarify the guidance in the exposure draft to PS1000 *Financial Statement Concepts*, PS1100 *Financial Statement Objectives* and PS1201 *Financial Statement Presentation*. The updates to the Handbook are expected to be released in fall 2020. The accounting for intangibles may be addressed through future PSAB projects.
Government Not-for-Profit Strategy	– PSAB is in the process of reviewing its strategy for government not-for-profit ("GNFP") organizations. PSAB intends to understand GNFPs' fiscal and regulatory environment, and stakeholders' financial reporting needs and concerns. – PSAB Is reviewing the feedback from the May 2019 consultation paper and expects to approve a second consultation paper in September 2020. PSAB will use the comments provided by stakeholders on the consultation papers to determine its next steps.

Appendix 3: Current developments and audit trends (continued)

Standard	Summary and implications
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 is in the process of developing exposure drafts for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. – 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: • Removal of the net debt indicator, except for on the statement of net debt where it would be calculated exclusive of financial assets and liabilities that are externally restricted and/or not available to settle the liabilities or financial assets. • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). • Restructuring the statement of financial position to present non-financial assets before 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). • 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 entity'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
2019 Audit Quality and Transparency Report	Learn about KPMG's ongoing commitment to continuous audit quality improvement. We are investing in new innovative technologies and building strategic alliances with leading technology companies that will have a transformative impact on the auditing process and profession. How do we seek to make an impact on society through the work that we do?	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 the new 2019/2020 Accelerate report, a KPMG report and video series offering insight into the key issues driving the Board of Directors agenda, including: – Digital disruption of the finance function – Digital business brings increased cyber risk – Taking the lead on data privacy – Boards bracing for climate change – Future-proofing your enterprise risk management	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)
Return to the workplace	As all levels of government begin to take steps toward re-opening the country and restarting our economy, planning for the return to a physical workplace is quickly becoming a top priority for many organizations. With the guidelines for the pandemic continuing to evolve daily, there are many considerations, stages and factors employers need to assess in order to properly develop a robust action plan which can ensure the health and safety of their workforce. We have put together a Return to the Workplace guide to support an organization's planning efforts in preparing to return to physical workplace. Our guide includes a list of considerations, stages and factors that can help establish a robust action plan for your organization to safely return to work. The guide is supported by a dynamic playbook, which our team has developed to outline a comprehensive list of actions an organization can take, based on their unique situation and immediate needs.	Website link Link to guide

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