KPMG

Capital Region Housing Corporation

Audit Planning Report for the year ended December 31, 2019

KPMG LLP

December 2, 2019, for presentation on January 8, 2020

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

We are pleased to provide for your review the following information relating to the planned scope and timing for the audit of the financial statements of the Capital Region Housing Corporation (the “Entity”) for the year ended December 31, 2019.

Audit risk

Our audit of the Entity is risk-focused. As part of our audit process, we have had discussions with management about any changes in the organization or other items that should be brought to our attention and considered the impact to the audit.

See page 3 for further details.

Changes in operations

During the 2019 fiscal year, the Entity began operations of the Regional Housing First Program.

See page 4 for further details.

Changes in accounting standards

PS 3430 *Restructuring Transactions* is effective for the Entity’s 2019 fiscal year. There is no expected impact on the financial statements from the adoption of the new accounting standard.

Executive summary (continued)

Audit materiality

Materiality has been determined based on total revenues. We have determined materiality to be $450,000 (2018 - $430,000) for the year ending December 31, 2019.

See page 5 for further details.

Independence

We are independent of the Entity and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow the Entity's approved protocols.

Current developments

See pages 8 to 11 for the current developments update.

Audit risks

Professional requirements	Why is it significant?
Fraud risk from revenue recognition. There are generally pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition when there is an expectation to maintain a balanced budget from year to year.	This is a presumed fraud risk.
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 audit approach

The risk of fraud from revenue recognition has been rebutted as there were no significant pressures or incentives identified related to revenue recognition.

As the risk of management override 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.

Changes in operations

Significant update in operations	Why is it significant?
Regional Housing First Program	This is a new business model for CRHC and will involve 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 2019 will be compared to bank statements, contractual agreements and invoices.
- We will assess management's accounting and disclosures for the transactions related to this new program.

Materiality

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 $430,000.	$450,000
Benchmark	Based on prior year audited total revenues. This benchmark is consistent with the prior year. The corresponding amount for the prior year's audit was $16.7M.	$17.2M
% of Benchmark	The corresponding percentage for the prior year's audit was 2.6%.	2.6%
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was $21,500.	$22,500

Materiality is used to scope the audit, identify risks of material misstatements 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.

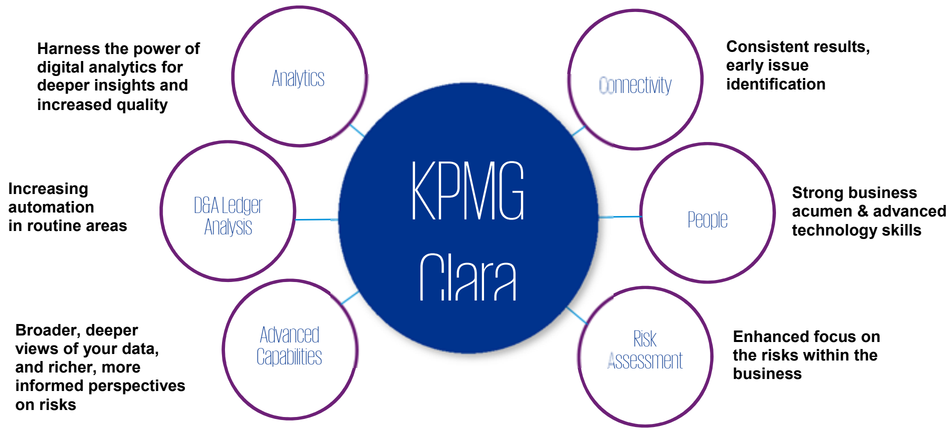
We will report to the Board of Directors:

- Corrected audit misstatements
- Uncorrected audit misstatements

The audit of today, tomorrow & the future

As part of KPMG's technology leadership, our audit practice has developed technologies and alliances to continuously enhance our capabilities and deliver an exceptional audit experience.

Technology empowers us with the ability to perform deep analysis over your financial information, focusing our effort and interactions on the areas of greatest risk and minimizing disruption to your business.



Technology we use today

Tool	Benefit to audit
KPMG Clara Advanced Capabilities	KPMG Clara Advanced Capabilities leverage our data and analytics capabilities, enabling us to analyze 100% of your general ledger data in the planning and account analysis stage and adjust our planned audit approach accordingly to target the areas of greatest risk.
Visualization Tool	Our Visualization tool is a powerful and flexible end-to-end analytics platform which we leverage to display dynamic visualization of your data. This enables us to provide valuable insights to your business throughout our audit process.
Account Analysis Tool	Our account analysis tool provides meaningful general ledger data insights during the planning phase of the audit that can be used to assist the engagement team in obtaining a more thorough understanding of the business processes and underlying flow of transactions through utilization of Account Analysis, Visual Ledger and Journal Entry Analysis functional features. Our tool enables a more precise risk assessment and development of a tailored audit approach.
Data Extraction & Analytics Tools	Our data extraction tools assist with risk assessment procedures and perform automated audit procedures in key cycles using data extracted directly from your ERP system.

Key deliverables and milestones

October 2019	November 2019	December 2019	February 2020	March 2020
Planning	Interim fieldwork	Provide Audit Planning Report	Year-end fieldwork	Provide Audit Findings Report and auditors’ report

Current developments

Standard	Summary and implications
Asset Retirement Obligations	– A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2021. – 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.
Revenue	– A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2022. – 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, 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.

Current developments (continued)

Standard	Summary and implications
Employee Future Benefit Obligations	– PSAB has initiated a review of sections PS3250 Retirement Benefits and PS3255 Post-Employment Benefits, Compensated Absences and Termination Benefits. Given the complexity of issues involved and potential implications of any changes that may arise from this review, the project will be undertaken in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. – Three Invitations to Comment were issued and have closed. The first Invitation to Comment sought guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets. The second Invitation to Comment sought guidance on the present value measurement of accrued benefit obligations. A third Invitation to Comment sought guidance on non-traditional pension plans. PSAB is currently deliberating on the comments received from the three Invitations to Comment. – The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.
Public Private Partnerships (“P3”)	– PSAB has proposed new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. An exposure draft has been approved by PSAB and will be issued in November 2019, with comments due by February 29, 2020. – 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.

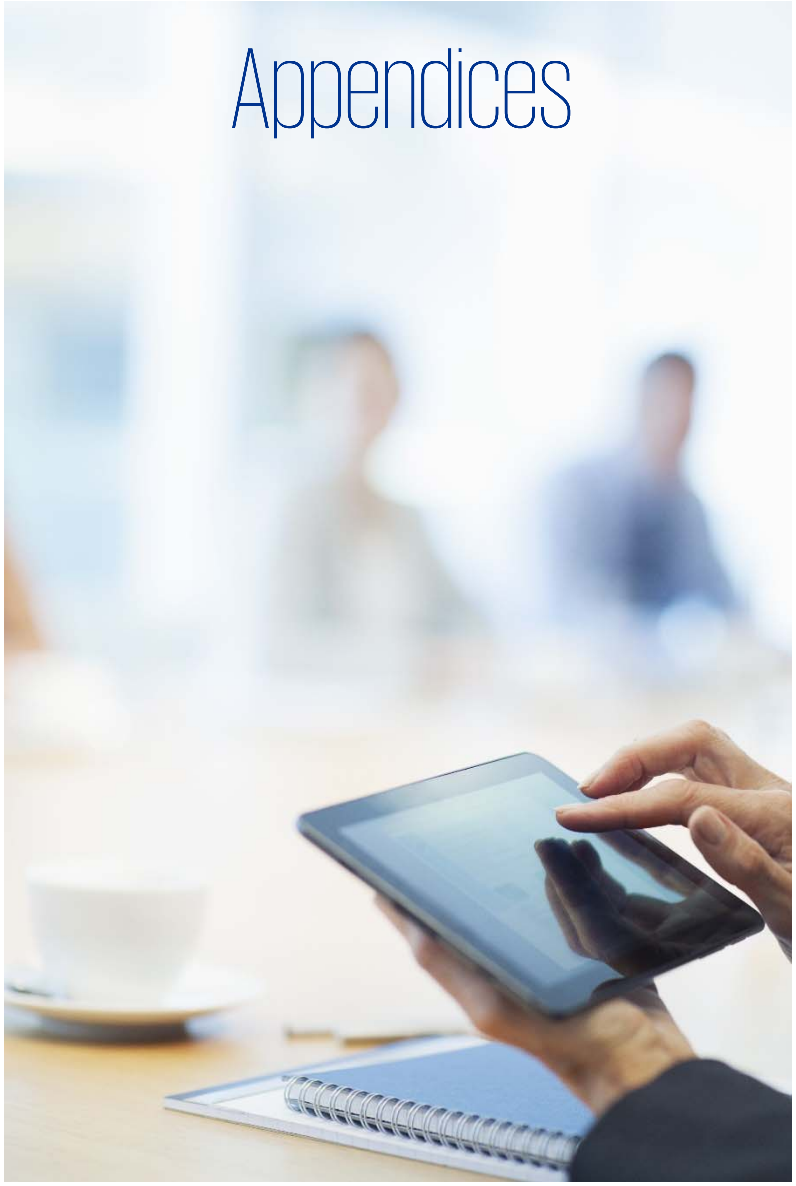
Current developments (continued)

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. – A Statement of Concepts ("SOC") and Statement of Principles ("SOP") were issued for comment in May 2018 and has closed. PSAB is in the process of developing two exposure drafts for comment. – The SOC proposes 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. – The SOP includes principles intended to replace PS 1201 *Financial Statement Presentation*. The SOP proposes: • 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.

Current developments (continued)

Standard	Summary and implications
International Strategy	– PSAB is in the process of reviewing its current approach towards International Public Sector Accounting Standards. This project may result in changes to the role PSAB plays in setting standards in Canada. – Consultation papers were released for comment in May 2018 and March 2019, and have closed. The consultation papers described the decision-making criteria PSAB expects to consider in evaluating the international strategy that best serves the public sector. It also introduced four proposed international strategies. – PSAB is expected to make a final decision about its international strategy at its March 2020 meeting.
Purchased Intangibles	– In October 2019, PSAB approved a proposal to allow public sector entities to recognize intangibles purchased through an exchange transaction. The proposal does not include guidance on how to account for intangibles. Instead, the definition of an asset, the general recognition criteria and the GAAP hierarchy is expected to provide guidance on how to account for intangibles. The accounting for intangibles may be addressed through future PSAB projects.

Appendices



- **Appendix 1: Audit quality and risk management**
- **Appendix 2: KPMG’s audit approach and methodology**
- **Appendix 3: Required communications**
- **Appendix 4: Lean in Audit™**
- **Appendix 5: Audit approach**

Appendix 1: Audit quality and risk management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards. Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems. Visit our Audit Quality Resources page for more information including access to our most recent Audit Quality and Transparency Report.

We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.

We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality. We do not offer services that would impair our independence.

All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.

The processes we employ to help retain and develop people include:

- Assignment based on skills and experience
- Rotation of partners
- Performance evaluation
- Development and training
- Appropriate supervision and coaching

We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.

Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Other controls include:

- Before the firm issues its audit report, Engagement Quality Control
- Reviewer reviews the appropriateness of key elements client audits
- Technical department and specialist resources provide real-time support to audit teams in the field

Appendix 2: KPMG's audit approach and methodology

In future years, we will expand our use of technology in our audit through our new smart audit platform, KPMG Clara.

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: Required communications

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

Engagement letter

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter and any subsequent amendment letters as provided by management.

Management representation letter

We will obtain from management certain representations at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Board of Directors.

Audit planning report

Represented by this report.

Audit findings report

At the completion of our audit, we will provide our audit findings to the Board of Directors.

Independence

At the completion of our audit, we will re-confirm our independence to the Board of Directors.

Appendix 4: Lean in Audit™

An innovative approach leading to enhanced value and quality

Our innovative audit approach, Lean in Audit™, further improves audit value and productivity to help deliver real insight to you. Lean in Audit™ is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide real insight on your processes and actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both our audit team and management. For example, the audit team may identify control gaps and potential process improvement areas, while management has the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.

How it works

Lean in Audit™ employs four key Lean techniques:

1. Lean training

Provide basic Lean training and equip our audit teams with a new Lean mindset to improve quality, value and productivity.

2. Process mapping workshop

Perform an interactive workshop with your team to map selected financial process providing end-to-end transparency and understanding of the process.

3. Insight reporting

Quick and pragmatic insight report including PACE matrix with prioritized opportunities to realize benefit.

4. Kaizen event

Perform an interactive workshop to find the root cause of the problem and empower your team to find a solution.

Appendix 5: Audit approach

Account	Our audit approach
Cash and Investments	– Confirm year end balances with financial institutions – Review year end bank reconciliations and cut-off of transactions at year end – Test the appropriate presentation of restricted cash
Tangible Capital Assets	– Inspect and verify the mathematical accuracy of the capital asset continuity schedule – Inspect a sample of capital asset additions including the underlying source documentation – Perform analytical procedures over amortization expense recognized during the year – Inspect supporting documentation related to significant transactions and commitments outstanding such as land and property transfers, exchanges and changes in operating agreements with BC Housing and CMHC
Accounts Payable	– Perform cut-off testing to determine if all expenses relating to fiscal 2019 have been recorded in the correct period – Review and recalculate significant accruals at year end, including commitments and contingencies
Mortgages Payable	– Confirm significant new year end mortgage balances with respective lenders – Assess accuracy of existing mortgages based on terms of debt with lenders – Verify mathematical accuracy of current vs. long term portion of loans and assess disclosure for completeness of terms and conditions
Fund Balances	– Inspect supporting documentation related to fund transfers and verify accuracy and authorization of transactions between funds such as mortgage repayments, capital asset additions, internally and externally restricted fund activity and investment income allocation
Replacement Reserve	– Test a sample of replacement reserve expenditures to determine if they are recorded in accordance with the operating agreements

Appendix 5: Audit approach (continued)

Account	Our audit approach
Revenue	– Perform substantive analytical procedures comparing actual tenant rent contributions to budgeted and prior year amounts – Confirm mortgage subsidies, rent subsidies and operating agreement funding with BC Housing and CMHC – Select a sample of new subsidized tenants and verify qualification and selection process – Obtain understanding of new agreements with partners such as BC Housing, CMHC and Canada Housing First
Expenses	– Perform analytical procedures comparing actual expenses to budgeted and prior year amounts – Review cut-off at year end to determine if expense have been recorded in the correct period – Perform analytical procedures over the interest expense by developing expectations based on loan balances and interest rates

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