

# Fraser Valley Regional District and Hospital District

Audit Findings Report  
for the year ended  
December 31, 2018

For discussion with Council on April  
25, 2019

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# Table of contents

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<b>EXECUTIVE SUMMARY</b>	<b>1</b>
<b>MATERIALITY</b>	<b>4</b>
<b>AREAS OF FOCUS</b>	<b>6</b>
<b>ADJUSTMENTS AND DIFFERENCES</b>	<b>12</b>
<b>APPENDICES</b>	<b>13</b>



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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 Council, in your review of the results of our audit of the financial statements of:

- 1) Consolidated financial statements of the Fraser Valley Regional District ("Regional District") as at and for the year ended December 31, 2018, and
- 2) Consolidated financial statements of the Fraser Valley Regional Hospital District ("Hospital District") as at and for the year ended December 31, 2018.



## Audit Materiality

### FRASER VALLEY REGIONAL DISTRICT

Materiality was determined based on the total expenses of the Regional District. For the year ended December 31, 2018 we determined materiality to be \$610,000.

### FRASER VALLEY REGIONAL HOSPITAL DISTRICT

Materiality was determined based on the total revenues of the Hospital District. For the year ended December 31, 2018 we determined materiality to be \$342,000.

*See pages 4-5.*



## 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 amongst others:

- Obtaining signed management representation letter;
- Completing our discussions with Council; and
- Obtaining evidence of Council's approval of the financial statements.

We will update Council on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

\*This Audit Findings Report should not be used for any other purpose or by anyone other than Council. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.





# Executive summary



## Areas of focus

We have not identified any significant financial reporting risks. However, as part of the planning process, we identified areas of audit focus including:

### FRASER VALLEY REGIONAL DISTRICT

- Investments
- Deferred revenues
- Chaumox Landfill asset retirement obligation
- Presumed fraud risk of management override of controls

### FRASER VALLEY REGIONAL HOSPITAL DISTRICT

- Investments

We are satisfied that our audit work has appropriately dealt with these areas of audit focus. See pages 6-11.



## Independence

We confirm that we are independent with respect to the Regional and Hospital Districts within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation from January 1, 2018 to the date of this report.

# Executive summary



## Adjustments and differences

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.



## Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.



## Significant accounting policies and practices

A new accounting standard regarding Contractual Rights was adopted in the current year.

# Materiality – Fraser Valley Regional District

Materiality determination	Comments	Amount
<b>Benchmark</b>	Total expenses per the prior year audited financial statements. The corresponding amount for the prior year's audit was \$19,134,281.	\$20,447,000
<b>Materiality</b>	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 \$575,000.	\$610,000
<b>% of Benchmark</b>	The corresponding percentage for the prior year's audit was 3.00%.	2.98%
<b>Audit Misstatement Posting Threshold (AMPT)</b>	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$28,000.	\$30,500

Materiality represents 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.

## We report to Council:



Corrected audit misstatements



Uncorrected audit misstatements

# Materiality – Fraser Valley Regional Hospital District

Materiality determination	Comments	Amount
<b>Benchmark</b>	Total revenues per the prior year audited financial statements. The corresponding amount for the prior year's audit was \$11,460,038.	\$11,483,459
<b>Materiality</b>	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 \$342,000.	\$342,000
<b>% of Benchmark</b>	The corresponding percentage for the prior year's audit was 2.98%.	2.98%
<b>Audit Misstatement Posting Threshold (AMPT)</b>	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$17,000.	\$17,100

Materiality represents 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.

## We report to the Council:



Corrected audit misstatements



Uncorrected audit misstatements



# Areas of focus

We highlight our significant findings in respect of significant financial reporting risks as identified in the executive summary.

## Significant financial reporting risks

## Why is it significant?

### Deferred Revenues

#### REGIONAL DISTRICT

Public Sector Accounting Standards requires that government grants without eligibility criteria, stipulations, or obligations must be recognized as revenue when the transfer is authorized. The Regional District has a material amount of government grants and unearned revenue deposits in 2018. Development levies and deferred revenues are equal to \$12.4 million as at December 31, 2018.

## Our response and significant findings

- We confirmed the amount of funding through inspection of the funding agreements.
- We inspected the agreement to confirm appropriateness of the deferral of revenues.
- No issues were noted from our testing results.





## Areas of focus (continued)

### Significant financial reporting risks

### Why is it significant?

#### Investments

The Regional District has over \$35 million in investments as at December 31, 2018.

#### REGIONAL DISTRICT

### Our response and significant findings

- We confirmed the value of investments at December 31, 2018 with the Regional District's investment advisors at Raymond James and National Bank Financial Wealth Management.
- We performed substantive analytical procedures over investment income.
- No issues were noted from our testing results.



## Areas of focus (continued)

### Significant financial reporting risks

### Why is it significant?

#### Government Business Partnership

#### REGIONAL DISTRICT

Public Sector Accounting Standards requires investments in Government Business Partnerships to be accounted for using the modified equity method using the Regional District's share of the partnership.

The Regional District is one of three partners in the Cascade Lower Canyon Community Forest Partnership ("Partnership").

### Our response and significant findings

- We obtained the March 31, 2018 audited financial statements of the Partnership and recalculated the value of the District's 1/3 interest and share of net profit.
- No issues were noted from our testing results.



## Areas of focus (continued)

### Significant financial reporting risks

#### **Chaumox Landfill Liability**

REGIONAL DISTRICT

### Why is it significant?

Public Sector Accounting Standards requires that financial statements should recognized a liability for closure and post-closure costs for all landfill sites operated by the District.

The Regional District operates the Chaumox Landfill in Boston Bar.

### Our response and significant findings

- We obtained and inspected the 2018 engineering report to confirm the estimated current and future closure and post-closure costs.
- We recalculated the liability to confirm the amounts presented on the Consolidated Statement of Financial Position and disclosed in the notes to the consolidated financial statements.
- No issues were noted from our testing results.



## Areas of focus (continued)

### Significant financial reporting risks

### Why is it significant?

#### Investments

The Hospital District has over \$27 million in investments as at December 31, 2018.

#### HOSPITAL DISTRICT

### Our response and significant findings

- We confirmed the value of investments at December 31, 2018 with the Hospital District's investment advisors at Raymond James and National Bank Financial Wealth Management.
- We performed substantive analytical procedures over investment income.
- No issues were noted from our testing results.





## Areas of focus (continued)

### Professional requirements

Presumed risk of management override of controls

### Why are we focusing here?

Although the level of risk of management override of controls will vary from entity to entity, professional standards presume the risk of management override of controls is present in all entities and requires the performance of specific procedures to address this presumed risk.

### Our response and significant findings

- We performed procedures required by professional standards to address the presumed risk of management override of controls including testing of journal entries, performing a retrospective review of estimates, and evaluating the business rationale of significant unusual transactions.
- No issues were noted from our testing results.

# 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.

Professional standards require that we request of management and the audit committee that all identified adjustments or differences be corrected. We have already made this request of management.

## Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

## Uncorrected differences

We have not identified any adjustments that remain uncorrected.

# Appendices



**Appendix 1: Required communications**



**Appendix 2: Audit Quality and Risk Management**

# Appendix 1: 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:



## 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, copies of the management representation letter are provided to Council. The management representation letter is attached.



## Independence

In accordance with professional standards, we have confirmed our independence on page 2.



# Appendix 2: 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 summarizes the six key elements of our quality control system.

Visit our [Audit Quality Resources page](#) for more information including access to our most recent [Audit Quality Report](#).

Other controls include:

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

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

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.

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



We do not offer services that would impair our independence.

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

- Assignment based on skills and experience
- Rotation of partners
- Performance evaluation
- Development and training
- 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.



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