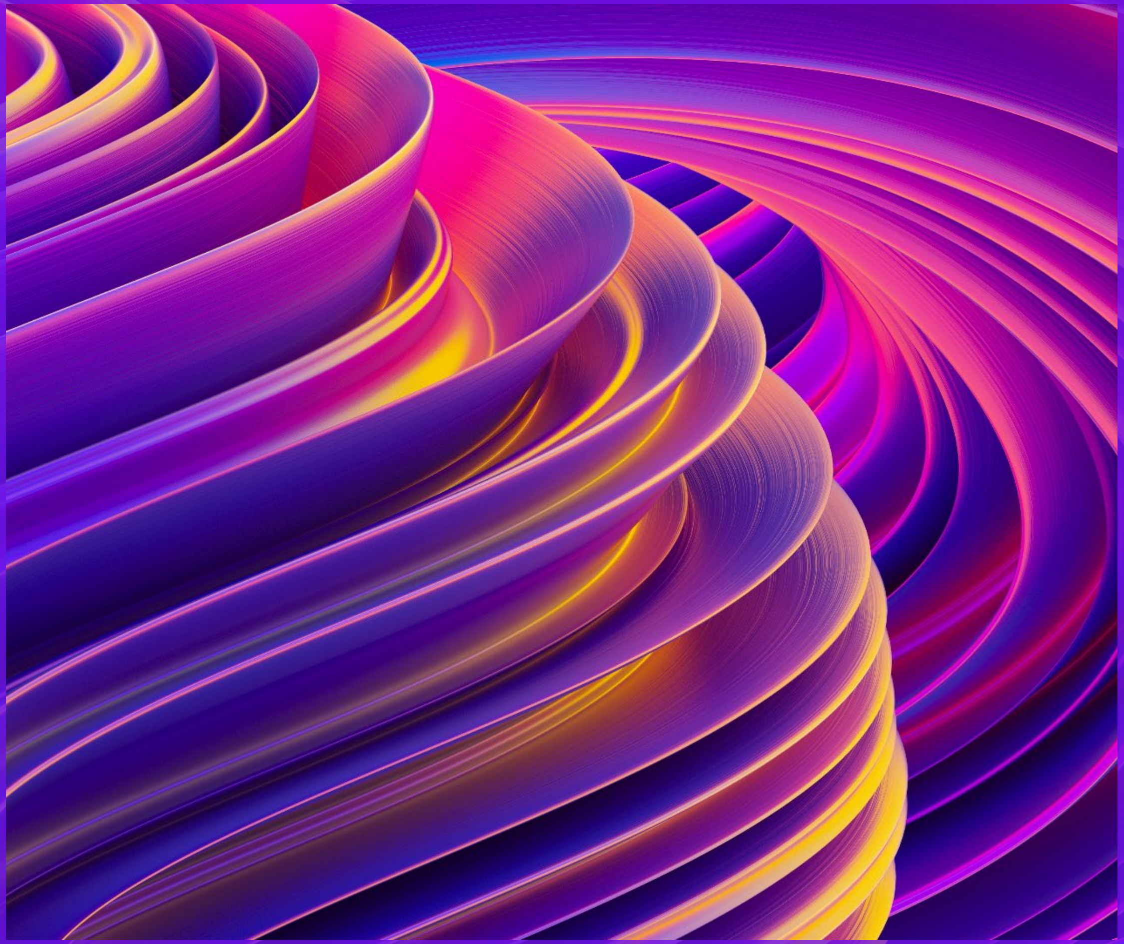
KPMG

Fraser Valley Regional Hospital District

Audit Findings Report for the year ended December 31, 2023

KPMG LLP



For discussion with the Board as of April 15, 2024

For presentation on April 25, 2024

kpmg.ca/audit

KPMG contacts

Key contacts in connection with this engagement

Sean Reid, CPA, CA
Lead Audit Engagement Partner
(604) 793-4708
srreid@kpmg.ca

Christina Miano, CPA
Senior Manager
604-527-3684
christinamiano@kpmg.ca

Table of contents

The purpose of this report is to assist you, as a member of the Board of Directors (the "Board"), in your review of the results of our audit of the financial statements. This report is intended solely for the information and use of management, and the Board and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this 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.

Digital use information

This Audit Findings Report is also available as a "hyper-linked" PDF document.

If you are reading in electronic form (e.g. In "Adobe Reader" or "Board Books"), clicking on the home symbol on the top right corner will bring you back to this slide.

Click on any item in the table of contents to navigate to that section.

Highlights

No matters to report

Matters to report – see link for details

Scope

Our audit of the consolidated financial statements ("financial statements") of the Fraser Valley Regional Hospital District ("the District") as of and for the year ended December 31, 2023 is performed in accordance with Canadian auditing standards.

Status

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:

- Completing our discussions with the Board
- Completing subsequent event review procedures up to the date Board's approval of the financial statements
- Receipt of the signed management representation letter

We will update the Board, and not solely the Chair, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

Our auditor's report, a draft of which is attached to the financial statements, will be dated upon the completion of any remaining procedures.

Risk assessment

Other risks of material misstatement

Risk of management override of controls

- Revenues
- Expenses
- Financial instruments – new accounting standards

Highlights (continued)

No matters to report

Matters to report – see link for details

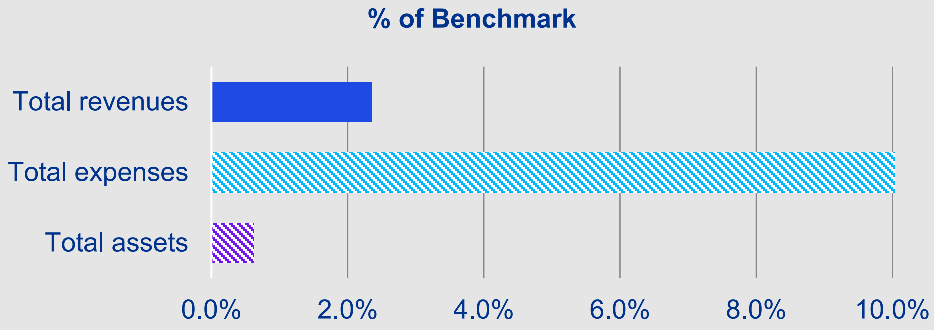
Corrected misstatements	We did not identify any misstatements that were corrected in the financial statements.
Uncorrected misstatements	We did not identify any misstatements that were uncorrected in the financial statements.
Accounting policies	There have been no initial selections of, or changes to, significant accounting policies and practices, except for the initial implementation of PS 3450 *Financial Instruments* and related standards (see page 10).
Control deficiencies	We did not identify any control deficiencies that we determined to be significant deficiencies in internal control 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, 2023 up to the date of this report.

Materiality

Materiality

$370,000

(2022: $350,000)



Total actual revenues

$ 15,688,693

(2022: $13,466,013)

No change in benchmark compared to prior year

% of Benchmark

2.36%

(2022: 2.75%)

The prescribed range is between 0.5% and 3.0% of the benchmark

Audit Misstatement Posting Threshold

$18,500

(2022: $17,500)

Set as 5% of materiality

Risks and results

Risk of management override of controls

RISK OF
FRAUD

Significant risk

Management is 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. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

Our response

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 significant estimates.
- Evaluating the business rationale of significant unusual transactions.

Our findings

There were no issues noted in our testing.

Risks and results (continued)

Other risks of material misstatement (continued)

RISK OF
ERROR

Other risks of material misstatement	Estimate?
Revenues	No

Our response and findings

- We tested all municipal requisitions, and agreed the balances recorded to amounts deposited in the bank and to other supporting documentation
- We performed a reasonability calculation for interest income using rates from investment confirmations received directly investment corporations.

Our findings

There were no issues noted in our testing

Risks and results (continued)

Other risks of material misstatement (continued)

RISK OF ERROR

Other risks of material misstatement	Estimate?
Expenses	No

Our response and findings

- We updated our understanding and performed a walkthrough of the process activities and controls over expenses.
- We selected a sample of payments made, invoices received and amounts recorded subsequent to year-end to ensure expenses are recorded in the appropriate fiscal year.

Our findings

There were no issues noted in our testing

Risks and results (continued)

Other risks of material misstatement (continued)

RISK OF
ERROR

Other risks of material misstatement	Estimate?
Financial instruments – New accounting standards	No

Background

The new standards PS 3450 *Financial Instruments*, PS 2601 *Foreign Currency Translation*, PS 1201 *Financial Statement Presentation* and PS 3041 *Portfolio Investments* are effective for the City's 2023 fiscal year. Equity instruments quoted in an active market and derivatives are required to be measured at fair value. All other financial instruments can be carried at cost or amortized cost or fair value depending on the City's accounting policy choice. The City has elected to carry all other financial instruments at cost or amortized cost.

Our response

- We inquired with management the process applied to analyze the appropriate recognition, measurement, presentation and disclosure of financial instruments.
- We obtained an understanding of the significant accounting policies applied to financial instruments to ensure they comply with the new accounting standards.
- We ensured financial instruments have been appropriately recognized and measured in accordance with the new accounting standards.
- We reviewed the financial statement note disclosures to ensure they are in accordance with Canadian public sector accounting standards.

Our findings

There were no issues noted in our testing

Accounting policies and practices

Significant accounting policies

- There have been no initial selections of, or changes to, significant accounting policies and practices, except for the adoption of new accounting standards –new financial instruments standards *PS 3450 Financial instruments*, *PS 2601 Foreign currency translation*, *PS 1201 Financial statement presentation* and *PS 3041 Portfolio* .
- There were no significant accounting policies in controversial or emerging areas.
- There were no issues noted with the timing of the District's transactions in relation to the period in which they were recorded.
- 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.
- There were no indicators of possible management bias.
- There were no significant factors affecting the District's asset and liability carrying values.

Significant disclosures and financial statement presentation

- 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.

Control deficiencies

Consideration of internal control over financial reporting (“ICFR”)

In planning and performing our audit, we considered ICFR relevant to the City’s preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on ICFR.

Our understanding of internal control over financial reporting was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies. The matters being reported are limited to those deficiencies that we have identified during the audit that we have concluded are of sufficient importance to merit being reported to those charged with governance.

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors. Had we performed more extensive procedures on internal control over financial reporting, we might have identified more significant deficiencies to be reported or concluded that some of the reported significant deficiencies need not, in fact, have been reported.

A deficiency in internal control over financial reporting

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Significant deficiencies in internal control over financial reporting

A deficiency, or a combination of deficiencies, in internal control over financial reporting that, in our judgment, is important enough to merit the attention of those charged with governance.

Significant deficiencies in ICFR

There were no significant deficiencies in ICFR.

Appendices

1 Required communications

2 Draft management representation letter

3 Current developments

4 Newly effective and upcoming changes to auditing standards

5 Thought leadership and insights

6 Audit and assurance insights

7 Financial statement trend analysis

Appendix 1: Required communications

Auditor’s report

A copy of our draft auditor's report setting out the conclusion of our audit has been included in the draft financial statements.

Management representation letter

We will obtain from management certain representations. In accordance with professional standards, a copy of the representation letter is included in Appendix 2.

Independence

We have confirmed our independence to the Committee.

Internal control deficiencies

No control deficiencies have been identified during the audit.

Appendix 2: Draft management representation letter

Appendix 3: Current developments

Changes in accounting standards

Standard	Summary and implications
Revenue *Effective 2024*	• The new standard PS 3400 *Revenue* is effective for fiscal years beginning on or after April 1, 2023. • The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement. • The standard notes that in the case of revenue 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 revenue arises 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.
Public Private Partnerships *Effective 2024*	• The new standard PS 3160 *Public private partnerships* is effective for fiscal years beginning on or after April 1, 2023. • The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. • The standard notes 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 public private partnership ends. • The public sector entity recognizes 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 standard can be applied retroactively or prospectively.

Appendix 3: Current developments (continued)

Changes in accounting standards (continued)

Standard	Summary and implications
Purchased Intangibles *Effective 2024*	• The new Public Sector Guideline 8 *Purchased intangibles* is effective for fiscal years beginning on or after April 1, 2023 with earlier adoption permitted. • The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles. • Narrow scope amendments were made to PS 1000 *Financial statement concepts* to remove the prohibition to recognize purchased intangibles and to PS 1201 *Financial statement presentation* to remove the requirement to disclose purchased intangibles not recognized. • The guideline can be applied retroactively or prospectively.
Employee benefits *Proposed 2027*	• The Public Sector Accounting Board has initiated a review of sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. • The intention is 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, the new standards will be implemented in a multi-release strategy. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. • The proposed section PS 3251 *Employee benefits* will replace the current sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. It will apply to fiscal years beginning on or after April 1, 2026. Early adoption will be permitted and guidance applied retroactively. • This proposed section would result in public sector entities recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations. • The Public Sector Accounting Board is in the process of evaluating comments received from stakeholders on the exposure draft.

Appendix 3: Current developments (continued)

Changes in accounting standards (continued)

Standard	Summary and implications
Concepts Underlying Financial Performance *Proposed 2027*	• The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 with earlier adoption permitted. • The framework provides the core concepts and objectives underlying Canadian public sector accounting standards. • The ten chapter conceptual framework defines and elaborates on the characteristics of public sector entities and their financial reporting objectives. Additional information is provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts are introduced.

Financial Statement Presentation
 	
Proposed 2027
	• The proposed section PS 1202 *Financial statement presentation* will replace the current section PS 1201 *Financial statement presentation*. PS 1202 *Financial statement presentation* will apply to fiscal years beginning on or after April 1, 2026 to coincide with the adoption of the revised conceptual framework. Early adoption will be permitted.
	• The proposed section includes the following:
	  • Relocation of the net debt indicator to its own statement called 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 total assets followed by total 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.
	• The Public Sector Accounting Board is currently deliberating on feedback received on exposure drafts related to the reporting model.

Appendix 4: Newly effective and upcoming changes to auditing standards

For more information on newly effective and upcoming changes to auditing standards - see Current Developments

Effective for periods beginning on or after December 15, 2022

ISA/CAS 220

(Revised) Quality management for an audit of financial statements

ISQM1/CSQM1

Quality management for firms that perform audits or reviews of financial statements or other assurance or related services engagements

ISQM2/CSQM2

Engagement quality reviews

Effective for periods beginning on or after December 15, 2023

ISA 600/CAS 600

Revised special considerations – Audits of group financial statements

Appendix 5: Thought leadership and insights

Current trends in Internal Audit

Organizations continually face a wide spectrum of risks beyond the already complex financial and regulatory compliance risks. Many organizations are recognizing the impact and benefit of internal audit activity that is agile, properly resourced, effectively managed, and aligned with strategic priorities, which can improve risk management and control processes and drive better efficiencies.

Examples of internal audits are noted below.

Cost reduction / efficiency planning

Review the governance arrangements for the monitoring and efficiency delivery of programs/services as required. This includes considering how efficiency requirements have been apportioned and communicated to support planning.

Fraud Risk Management

Internal Audit assesses whether a fraud risk management framework exists and whether fraud risk assessment is performed at these levels. IA reviews the overall governance surrounding this process and review the communication and reporting protocols in place.

Staff Inclusion and Diversity

Assess the strategy and plan in place for inclusion and diversity amongst staff, the governance of them and the measures in place to measure achievement of the goals. Training and awareness programs are offered to staff and faculty to provide understanding of roles and responsibilities pertaining to EDI and material is updated on a regular basis.

Asset Management/ Maintenance

Review the processes and controls in place to ensure assets are adequately managed based on an appropriate schedule.

Wellbeing (Staff)

Review processes in place to develop and promote employee wellness programs and mental-health strategies for faculty and staff. Areas of focus include overall program framework, communication to faculty and staff, feedback mechanisms and management's approach to assessing the suitability of the current wellness offerings version faculty and staff needs.

Appendix 5: Thought leadership and insights (continued)

Cybersecurity: Incident Response Preparedness

With cyber attacks growing more widespread, it is becoming essential for executives to be involved in responding to cybersecurity incidents. Incident response preparedness can help leaders quickly identify gaps and gain information necessary to make informed decisions when faced with cybersecurity threats. Example of common topics addressed in incident response plans are noted below.

> “Which roles are included in the District’s core executive incident response team to make decisions and address circumstances surrounding an incident?

Who is responsible for engaging the District’s insurer?

Consideration should be given to who should contact the insurance provider and under what circumstances the insurance provider should be engaged.

Who is responsible for leading communications?

Consideration should be given to who should be involved in enacting the communication plan and managing internal and external communications.

Should a ransom be paid?

Consideration should be given to who should be involved in the decision to pay a ransom, the engagement of a third-party to negotiate the ransom on behalf of the District, risks associated with ransom demands from prohibited organizations or countries and the District insurance provider’s stance on ransom payment.

Who is responsible for notifying the Board?

Consideration should be given to who should engage the Board and under what circumstances the Board should be engaged?

Should Law Enforcement be Involved?

Consideration should be given to whether law enforcement should be contacted regarding the incident and, if so, who should be responsible for contacting law enforcement.

Who is responsible for considering additional risks?

Consideration should be given to risks associated with non-restoration of systems, data exposure, subsequent attacks and potential sanctions.

Appendix 5: Thought leadership and insights (continued)

Thought leadership – Environmental, social and governance (“ESG”)

First IFRS Sustainability Disclosure Standards

The arrival of the first two IFRS Sustainability Disclosure Standards marks a key milestone in sustainability reporting and is a significant step towards creation of a global baseline for stakeholder-focused sustainability reporting that local jurisdictions can build on. **Although the standards are not required to be adopted by the District, the new IFRS sustainability standards provide key insights into what the future of sustainability reporting may look like for the District.**

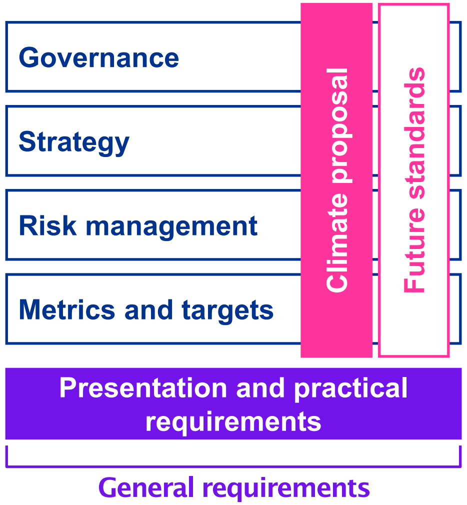
Summary of the recently released standards

The standards build on the four-pillar structure of the **Task Force on Climate-related Financial Disclosures**.

The **general requirements standard** **(IFRS S1)** defines the scope and objectives of reporting and provides core content, presentation and practical requirements.

It requires disclosure of material information on all sustainability-related risks and opportunities – not just on climate.

The **climate standard** **(IFRS S2)** replicates the core content requirements and supplements them with climate-specific reporting requirements.



Visit KPMG’s Sustainability Reporting website for more information, including a comprehensive summary of the new requirements and KPMG’s insights and illustrative examples for the new standards.

Click here to access KPMG’s portal

Appendix 5: Thought Leadership and insights (continued)

Climate Risk in the Financial Statements

All entities are facing climate-related risks and opportunities – and are making strategic decisions in response. The impacts of climate-related risks in the financial statements are broad, potentially complex and will depend on industry-specific risks.

How might climate-related risks impact the financial statements?

01

Assets

Consider the useful lives and residual values of assets, cash flow projections used for impairment testing of non-financial assets, and the potential impacts on inventories.

02

Liabilities

Consider the recognition of environmental and decommissioning obligations, accounting for emissions or 'green' schemes, impact on employee-benefit arrangements, and restructuring provisions.

03

Borrowers

Consider the accounting for different forms of government assistance, potential for embedded derivatives in green bonds, lease of green technology, impacts of leasing polluting assets.

04

Lenders

Consider how climate-related risks impact operating and financing leases, the potential impact on expected credit losses, and whether green loans meet the solely payments of principal and interest (SPPI) criterion.

05

Disclosures

Consider the impact on the going concern assessment and related disclosures and whether the impacts of climate-related matters have been disclosed clearly.

See here for more information

Appendix 5: Thought Leadership and insights (continued)

Climate Risk in the Financial Statements

All entities are facing climate-related risks and opportunities – and are making strategic decisions in response. The impacts of climate-related risks in the financial statements are broad, potentially complex and will depend on industry-specific risks.

How might climate-related risks impact the financial statements?

- 01 Long-lived assets
- 02 Leases
- 03 Impairment of non financial assets
- 04 Financial instruments
- 05 Contingencies and insurance
- 06 Revenue and inventories
- 07 Compensation and benefits
- 08 Fair value measurement and projections
- 09 Presentation and disclosure

See here for more information

Appendix 5: Thought Leadership and insights (continued)

KPMG research shows that:

Eighty-seven percent of IT decision makers believe that technologies powered by AI should be subject to regulation.

- Of that group, 32 percent believe that regulation should come from a combination of both government and industry.
- Twenty-five percent believe that regulation should be the responsibility of an independent industry consortium.

Ninety-four percent of IT decision makers feel that firms need to focus more on corporate responsibility and ethics while developing AI solutions.

Source:

Per a study of 300 ITDMs from the UK and the US, conducted by Vanson Bourne on behalf of SnapLogic:

https://www.businesswire.com/news/home/20190326005362/en/AI-Ethics-Deficit-%E2%80%94-94-Leaders-Call

For AI solutions to be transformative, trust is imperative. This trust rests on four main anchors: integrity, explainability, fairness, and resilience. These four principles (enabled through governance) will help organizations drive greater trust, transparency, and accountability.

1. **Integrity** — algorithm integrity and data validity including lineage and appropriateness of how data is used
2. **Explainability** — transparency through understanding the algorithmic decision-making process in simple terms
3. **Fairness** — ensuring AI systems are ethical, free from bias, free from prejudice and that protected attributes are not being used
4. **Resilience** — technical robustness and compliance of your AI and its agility across platforms and resistance against bad actors

1. Develop AI principles, policies and design criteria and establish controls in an environment that fosters innovation, flexibility, and trust while identifying the unique risks associated with AI. In addition, understand the footprint of AI within the organization in order to inventory capabilities and use cases.
2. Design, implement, and operationalize an end-to-end AI governance and operating model across the entire AI development life cycle, including strategy, building, training, evaluating deploying, operating and monitoring AI. Consider the need to set up separate governance committees and councils to address the unique risks and complexities associated with AI and data.
3. Assess the current governance and risk framework and perform a gap analysis to identify opportunities and areas that need to be addressed
4. Design a cross-functional governance committee and framework that deliver AI solutions and innovation through guidelines, templates, tooling and accelerators to quickly yet responsibly deliver AI solutions.
5. Integrate a risk management framework to identify and prioritize business-critical algorithms and incorporate an agile risk mitigation strategy to address cybersecurity, integrity, fairness, and resiliency considerations during design and operation
6. Design and set up criteria to maintain continuous control over algorithms without stifling innovation and flexibility. Consider the need to invest in new capabilities to enable effective governance and risk management enabled through tooling for AI.

home.kpmg/ShapeofAIGovernance

Appendix 6: Audit and assurance insights

Our latest thinking on the issues that matter most to Finance, Audit and Facilities Committees, board of directors and management.

KPMG Audit & Assurance Insights

Curated research and insights for Finance, Audit and Facilities Committees and boards.

Board Leadership Centre

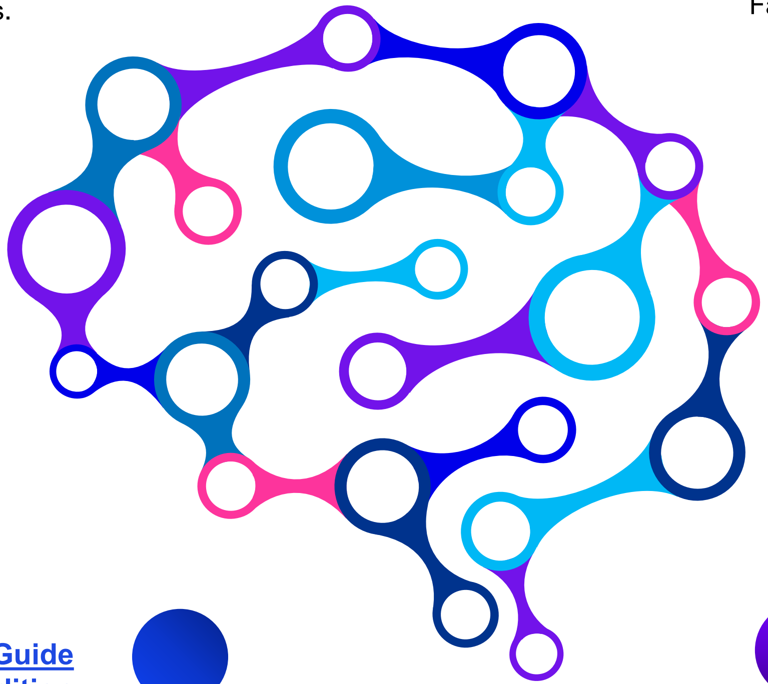
Leading insights to help board members maximize boardroom opportunities

Current Developments

Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.

Finance, Audit and Facilities Committee Guide – Canadian Edition

A practical guide providing insight into current challenges and leading practices shaping Finance, Audit and Facilities Committee effectiveness in Canada.



Accelerate 2023

The key issues driving the Finance, Audit and Facilities Committee agenda in 2023.

Momentum

A quarterly newsletter with the latest thought-leadership from KPMG's subject matter leaders across Canada and valuable audit resources for clients.

KPMG Climate Change Financial Reporting Resource Centre

Our climate change resource center provides insights to help you identify the potential financial statement impacts to your business.

IFRS Breaking News

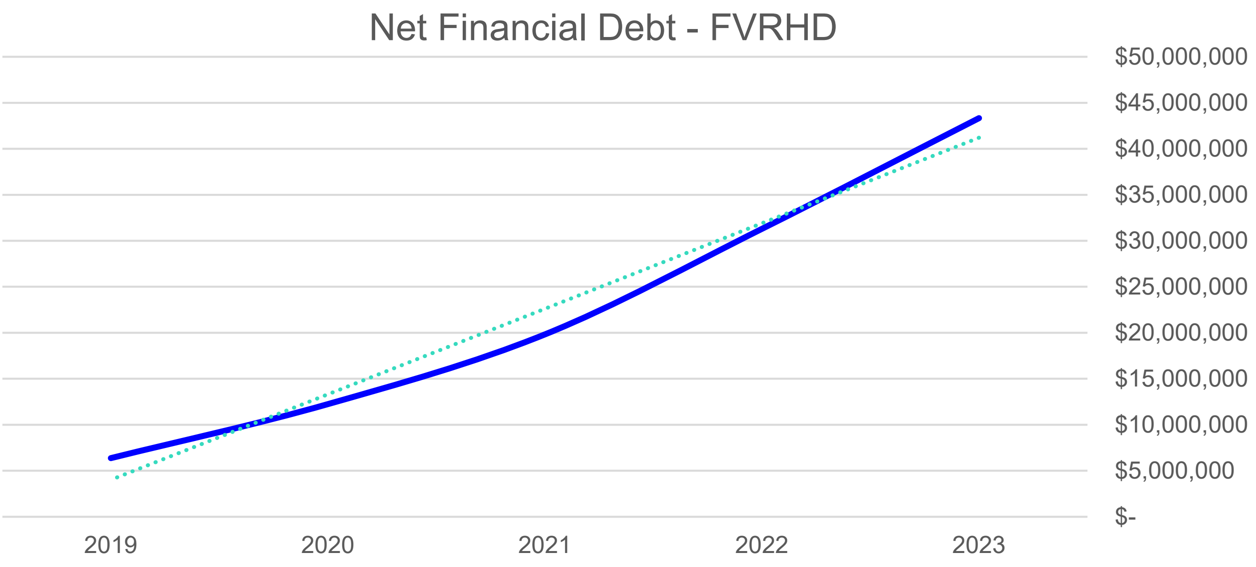
A monthly Canadian newsletter that provides the latest insights on international financial reporting standards and IASB activities.

Appendix 7: Financial statement trend analysis

Fraser Valley Regional Hospital District

Net financial assets is a measurement of the available financial resources that the Hospital District has to finance future operations.

The net financial assets have been increasing at an average rate of 46.7% per year with an increase of 38% when compared to 2022. This represents an increasing accumulation of financial assets. Specifically, cash and investments have increased by $8 million and debenture debt has decreased $3.5 million compared to 2022.



https://kpmg.com/ca/en/home.html