

# REGIONAL DISTRICT OF EAST KOOTENAY

Planning Report to Members of the Board

February 14, 2020



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February 14, 2020

Member of the Board  
Regional District of East Kootenay  
10 - 24th Ave South  
Cranbrook, BC V1C 3H8

Dear Members of the Board;

We are pleased to present our audit plan for the audit of the financial statements of Regional District of East Kootenay for the year ending December 31, 2019.

Our report is designed to highlight and explain key issues which we believe to be relevant to the audit including audit risks, the nature, extent and timing of our audit work and the terms of our engagement, including fees. The audit planning report forms a significant part of our overall communication strategy with the Board and is designed to promote effective two-way communication throughout the audit process. It is important that we maintain effective two-way communication with the Board throughout the entire audit process so that we may both share timely information. The audit process will conclude with a Board meeting and the preparation of our final report to the Board.

This report has been prepared solely for the use of the Board and should not be distributed without our prior consent. Consequently, we accept no responsibility to a third party that uses this communication.

The Board plays an important part in the audit planning process and we look forward to meeting with you to discuss our audit plan as well as any other matters that you consider appropriate.

Yours truly,

A handwritten signature in black ink that reads "Michael S. Murphy". The signature is written in a cursive, flowing style.

Michael S. Murphy, CPA, CA  
Partner  
BDO Canada LLP  
Chartered Professional Accountants



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## TERMS OF REFERENCE

Our overall responsibility is to form and express an opinion on the financial statements. These financial statements are prepared by management, with oversight by those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. The scope of our work, as confirmed in our engagement letter, and a summary of our proposed fees are set out below.

### ENGAGEMENT OBJECTIVES

- Forming and expressing an audit opinion on the financial statements.
- Present significant findings to the Board including key audit and accounting issues, any significant deficiencies in internal control and any other significant matters arising from our work.
- Provide timely and constructive management letters. This will include deficiencies in internal control identified during our audit.
- Work with management towards the timely issuance of financial statements.

## INDEPENDENCE

At the core of the provision of external audit services is the concept of independence. Canadian generally accepted auditing standards require us to communicate to the Board at least annually, all relationships between BDO Canada LLP and its related entities and the Regional District and its related entities, that, in our professional judgment, may reasonably be thought to bear on our independence for the forthcoming audit of the Regional District.

We have prepared the following comments to facilitate our discussion with you regarding independence matters.

- We will provide assistance in the preparation of the financial statements, possibly including adjusting journal entries. These services may create a self-review threat to our independence. We, therefore, require that the following safeguards be put in place:
  - That management create the source data for all the accounting entries.
  - That management develop any underlying assumptions required with respect to the accounting treatment and measurement of the entries.
  - That management review and approve all journal entries prepared by us, as well as changes to the financial statement presentation and disclosure.

We hereby confirm that we are independent with respect to Regional District of East Kootenay within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of British Columbia as of February 14, 2020.

## AUDIT TEAM

In order to ensure effective communication between the Board and BDO Canada LLP, the contact details of the engagement team are outlined below.

Name	Role	Phone number	Email address
Michael Murphy, CPA, CA	Engagement Partner	250-426-4285 Ext: 5813	msmurphy@bdo.ca
Kenton Lane, CPA	Audit Manager	250-426-4285 Ext: 5828	kelane@bdo.ca



# RESPONSIBILITIES

It is important for the Board to understand the responsibilities that rest with the Regional District and its management, those that rest with the external auditor and the responsibilities of those charged with governance. BDO's responsibilities are outlined within the annual engagement letter. The oversight and financial reporting responsibilities of management and the Board are summarized below.

## MANAGEMENT'S RESPONSIBILITIES

- Maintain adequate accounting records and maintain an appropriate system of internal control for the Regional District.
- Select and consistently apply appropriate accounting policies.
- Prepare the annual financial statements.
- Safeguard the Regional District's assets and take reasonable steps for the prevention and detection of fraud and other irregularities.
- Make available to us, as and when required, all of the Regional District's accounting records and related financial information.

## BOARD'S RESPONSIBILITIES

- Oversee the work of the external auditor engaged for the purpose of issuing an independent auditor's report.
- Facilitate the resolution of disagreements between management and the external auditor regarding financial reporting matters.
- Pre-approve all non-audit services to be provided to the Regional District or its subsidiaries by the external auditor.
- Review the financial statements before the Regional District publicly discloses this information.

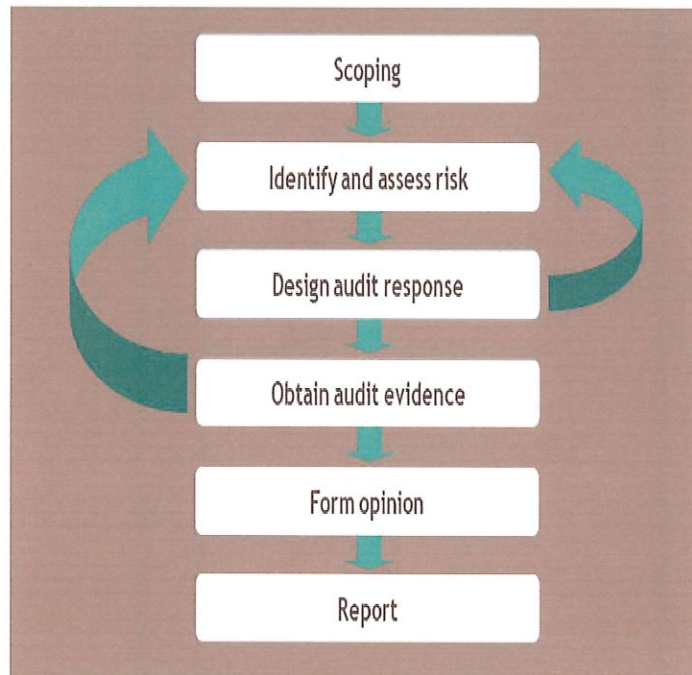
## AUDIT STRATEGY

Our overall audit strategy involves extensive partner and manager involvement in all aspects of the planning and execution of the audit and is based on our overall understanding of the Regional District.

We will perform a risk based audit which allows us to focus our audit effort on higher risk areas and other areas of concern for management and the Board.

To assess risk accurately, we need to gain a detailed understanding of the Regional District's business and the environment it operates in. This allows us to identify, assess and respond to the risks of material misstatement.

To identify, assess and respond to risk, we obtain an understanding of the system of internal control in place in order to consider the adequacy of these controls as a basis for the preparation of the financial statements, to determine whether adequate accounting records have been maintained and to assess the adequacy of these controls and records as a basis upon which to design and undertake our audit testing.



Based on our risk assessment, we design an appropriate audit strategy to obtain sufficient assurance to enable us to report on the financial statements.

We choose audit procedures that we believe are the most effective and efficient to reduce audit risk to an acceptable low level. The procedures are a combination of testing the operating effectiveness of internal controls, substantive analytical procedures and other tests of detailed transactions.

Having planned our audit, we will perform audit procedures, maintaining an appropriate degree of professional skepticism, in order to collect evidence to support our audit opinion.

## MATERIALITY

Misstatements, including omitted financial statement disclosures, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances and include an assessment of both quantitative and qualitative factors and can be affected by the size or nature of a misstatement, or a combination of both.

For purposes of our audit, we have set preliminary materiality at \$600,000 for the Regional District.

Our materiality calculation is based on the Regional District's preliminary results. In the event that actual results vary significantly from those used to calculate preliminary materiality, we will communicate these changes to the Board as part of our year end communication.

We will communicate all corrected and uncorrected misstatements identified during our audit to the Board, other than those which we determine to be "clearly trivial". Misstatements are considered to be clearly trivial for purposes of the audit when they are inconsequential both individually and in aggregate.

We encourage management to correct any misstatements identified throughout the audit process.



## RISKS AND PLANNED AUDIT RESPONSES

Based on our knowledge of the Regional District's business, our past experience, and knowledge gained from management and the Board, we have identified the following significant risks; those risks of material misstatement that, in our judgment, require special audit consideration.

Significant risks arise mainly because of the complexity of the accounting rules, the extent of estimation and judgment involved in the valuation of these financial statement areas, and the existence of new accounting pronouncements that affect them. We request your input on the following significant risks and whether there are any other areas of concern that the Board has identified.

### Landfill Post Closure Liability

#### Significant Risk

- The Regional District has significant estimates related to the landfill post closure liability.

#### Approach

- Review and evaluate calculations for the landfill post closure liability. Review and evaluate managements assumptions used in the calculations for the landfill post closure liability.

### Management Override of Controls

#### Significant Risk

- Potential of management override or lack of segregation of duties.

#### Approach

- Review and test internal control procedures, including those surrounding journal entries and approvals.

### Revenue Recognition

#### Significant Risk

- Ordinary presumption of fraud relating to revenue (CAS 240.26)

#### Approach

- Review and evaluate which types of revenue, revenue transactions or assertions give rise to such fraud risks and test internal control procedures or perform alternate procedures to address those fraud risks.

## FRAUD DISCUSSION

Canadian generally accepted auditing standards require us to discuss fraud risk with the Board on an annual basis. We have prepared the following comments to facilitate this discussion.

Required Discussion	BDO Response	Question to Board
Details of existing oversight processes with regards to fraud.	Through our planning process, and based on prior years' audits, we have developed an understanding of your oversight processes including: <ul style="list-style-type: none"> <li>• Board bylaws and policies;</li> <li>• Discussions at Board meetings and our attendance at those meetings;</li> <li>• Review of related party transactions; and</li> <li>• Consideration of tone at the top</li> </ul>	Are there any new processes or changes in existing processes relating to fraud that we should be aware of?
Knowledge of actual, suspected or alleged fraud.	Currently, we are not aware of any fraud.	Are you aware of any instances of actual, suspected or alleged fraud affecting the Regional District?

## AUDITORS' RESPONSIBILITIES FOR DETECTING FRAUD

We are responsible for planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by error or fraud, by:

- Identifying and assessing the risks of material misstatement due to fraud;
- Obtaining sufficient and appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- Responding appropriately to fraud or suspected fraud identified during the audit.

The likelihood of not detecting a material misstatement resulting from fraud is higher than the likelihood of not detecting a material misstatement resulting from error because fraud may involve collusion as well as sophisticated and carefully organized schemes designed to conceal it.

During the audit, we will perform risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the entity's internal control, to obtain information for use in identifying the risks of material misstatement due to fraud and will make inquiries of management regarding:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments;
- Management's process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist;
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity; and
- Management's communication, if any, to employees regarding its view on business practices and ethical behaviour.

In response to our risk assessment and our inquiries of management, we will perform procedures to address the assessed risks, which may include:

- Inquire of management, the Board, and others related to any knowledge of fraud, suspected fraud or alleged fraud;
- Perform disaggregated analytical procedures and consider unusual or unexpected relationships identified in the planning of our audit;
- Incorporate an element of unpredictability in the selection of the nature, timing and extent of our audit procedures; and
- Perform additional required procedures to address the risk of management's override of controls including;
  - Testing internal controls designed to prevent and detect fraud;
  - Testing the appropriateness of a sample of adjusting journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud;
  - Reviewing accounting estimates for biases that could result in material misstatements due to fraud, including a retrospective review of significant prior years' estimates; and
  - Evaluating the business rationale for significant unusual transactions.



## AUDIT TIMING

The following schedule outlines the anticipated timing of the audit of the financial statements of the Regional District.

Audit tasks and deliverables	Dates
Planning visit and interim fieldwork completed	December 2019
Final audit fieldwork commences	March 2020
Present final report to the Board	May 2020
Release of audit report	May 2020

As part of the year-end Board meeting, we will provide the Board with a copy of our draft audit opinion, discuss our findings, including significant estimates utilized by management, accounting policies, financial statement disclosures, and significant transactions completed during the year. We will also report any significant internal control deficiencies identified during our audit and reconfirm our independence.

## FEES

We estimate our fees for December 31, 2019 will be \$43,000 plus applicable taxes for the audit of the financial statements, including assistance with preparation of the financial statements.

Our estimated fees are based on the time expected to complete the audit including out of pocket expenses and internal administration fees and are based upon the following assumptions:

- We will be provided with the requested audit schedules, working papers and descriptions of accounting systems and processes as detailed in our annual requirements letter upon the commencement of fieldwork;
- There will be minimal adjusting journal entries; and
- The nature of the Regional District's operations remain consistent with the prior year and there have been no changes in accounting personnel.

In the event that we incur additional charges or we experience delays in completing the audit, we will advise management.

## NEW ACCOUNTING STANDARDS

The Public Sector Accounting Board has issued a number of standards, which will or have become effective for public sector entities over the next few years, which include:

Effective for fiscal years beginning on or after April 1, 2018 (early adoption is permitted)

- Restructurings

Effective for fiscal years beginning on or after April 1, 2021

- Asset Retirement Obligations
- Financial Instruments, Foreign Currency, Financial Statements Presentation and Portfolio Investment

Effective for fiscal years beginning on or after April 1, 2022

- Revenue

## BDO RESOURCES

BDO is one of Canada's largest accounting services firms providing assurance and accounting, taxation, financial advisory, risk advisory, financial recovery and consulting services to a variety of publicly traded and privately held companies.

BDO serves its clients through 125 offices across Canada. As a member firm of BDO International Limited, BDO serves its multinational clients through a global network of over 1,500 offices in more than 160 countries. Commitment to knowledge and best practice sharing ensures that expertise is easily shared across our global network and common methodologies and information technology ensures efficient and effective service delivery to our clients.

Below is a link to the public sector section of our website:

<https://www.bdo.ca/en-ca/industries/public-sector/overview/>