



Avon Maitland District School Board

**Audit Findings Report
For the year ended August 31, 2016**

KPMG LLP

Licensed Public Accountants

Prepared as of November 4, 2016

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

Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of the audit committee, in your review of the results of our audit of the financial statements of Avon Maitland District School Board ("AMDSB") as at and for the year ended August 31, 2016.

This Audit Findings Report builds on the Audit Plan we presented to the Audit Committee on June 7, 2016.

Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

Audit risks and results

We discussed with you at the start of the audit the presumed **significant risk** of fraud relating to management override of controls.

We are satisfied that our audit work has appropriately dealt with this risk.

We also discussed with you some **other areas of audit focus**. We have no significant matters to report to the audit committee in respect of them.

See page 5.

Adjustments and differences

We identified one difference that remains uncorrected.

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

See page 9 and Appendix 1

This Audit Findings Report should not be used for any other purpose or by anyone other than the audit committee. 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

Finalizing the audit

As of November 4, 2016, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- receiving and reviewing the final actuary report
- obtaining the signed management representation letter, which management has indicated that they are prepared to sign
- completing our discussions with the audit committee
- obtaining evidence of the Board's approval of the financial statements.

We will update the audit committee, and not solely the Chair (as required by professional standards), 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.

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal controls over financial reporting.

Accounting estimates

Overall, we are satisfied with the reasonability of accounting estimates.

The critical areas of estimates relate to: employee future benefits, and retroactive pay accruals.

See page 6.

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

Audit risks and results

We identified other areas of focus for our audit in our discussion with you in the Audit Plan.

Significant findings from the audit regarding other areas of focus are as follows:

Other areas of focus	Our significant findings from the audit
Internal audit	<ul style="list-style-type: none"> • During the year, the PricewaterhouseCoopers internal audit team performed testing over certain functions within AMDSB including: <ul style="list-style-type: none"> ○ Manage Facility Operations ○ Payroll and Compensation • KPMG reviewed the findings included in the internal audit reports. The results of the internal audit reports did not have an impact on our audit approach.
Assets held for sale	<ul style="list-style-type: none"> • During the year two properties, Listowel Central Public School and Wallace Public School, were reclassified as assets held for sale. As a result, a write down of \$1,439,342 was recorded to bring the carrying value of the properties to their fair value of \$570,000 at August 31, 2016. • Both properties were sold subsequent to year-end with a closing date of September 15, 2016. <p><i>Our findings:</i></p> <ul style="list-style-type: none"> • KPMG obtained evidence that the Board intended to sell each property as part of its Accommodation Review prior to year-end as well as support for their fair values as of August 31, 2016. • No issues were noted.
Related parties	<ul style="list-style-type: none"> • PSAB has issued two new standards: PS2200 <i>Related Party Disclosures</i> and PS3420 <i>Inter-entity Transactions</i> which will become effective for fiscal years beginning on or after April 1, 2017. The new standards provide guidance on the identification of related parties and on the recognition, measurement and disclosure of transactions with related parties. Related parties could be either an entity or an individual. Related parties exist when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties. • Management and the Board should keep these upcoming standards in mind when it comes to the Foundation for Enriching Education – Huron Perth as this could potentially be seen to be a related party to the Board which may require consolidation or disclosure in the Board's financial statements when these new standards come into effect.

Accounting estimates

Under generally accepted accounting principles, management is required to disclose information in the financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be “critical accounting estimates.” As we have not identified any significant risks from accounting estimates, we have presented only significant estimates to the financial statements.

Accounting estimates

Asset / liability	KPMG comment
Post-retirement benefits	<ul style="list-style-type: none"> The liability for post-retirement benefits has been determined by an actuarial valuation performed by School Boards' Co-Operative Inc. (“SBCI”). During the year, SBCI completed a full valuation, which is required every three years. While completing this year’s full valuation SBCI identified that there had been an error in the calculation of benefit costs within the 2013 valuation which had been carried forward to the 2014 and 2015 extrapolated valuations. The error resulted in an understated post-retirement benefit liability in each of the past three years of \$744,000. This error has been corrected in the current year. As a result, the statement of financial position is correct at August 31, 2016, and there is an overstatement in expenses of \$744,000 in F2016 in order to correct the liability at year end. <p><i>Our findings:</i></p> <ul style="list-style-type: none"> We performed testing over the data submitted to SBCI as part of the full valuation completed. We obtained the SBCI report determining the estimated liability at August 31, 2016, and agreed the details to the financial statements. We examined the discount rate of 2.05% (2015 – 2.45%) and compared it to the rate used at other school boards across Ontario to conclude that the rate utilized is reasonable for determining the liability. The correction of the post-retirement benefit liability error relating to the 2013 valuation in the current period represents an uncorrected misstatement in the fiscal 2016 financial statements.
Voluntary retirement gratuity early pay-out provision	<ul style="list-style-type: none"> During the year, ETFO and OSSTF ratified agreements at the local and central level which included a voluntary retirement gratuity early payout provision to be paid by August 31, 2016. The provision was also made available to all non-unionized school board employees, including principals and vice-principals. Some employees took the early payouts, which were discounted from the current financial statement carrying values. The reduction in the liability associated with these employees’ gratuities was accompanied by actuarial gains in the 2016 financial statements. The outcome of the gratuity pay-outs was a reduction in the employee future benefit liability of \$1,454,953. The total amount of voluntary retirement gratuity pay-outs was \$1,138,423, of which \$85,525 remained payable at August 31, 2016. <p><i>Our findings:</i></p> <ul style="list-style-type: none"> We obtained a copy of the SBCI actuarial report to support the amount of the actuarial gains/losses recorded as a result of the pay out as well as the remaining retirement gratuity liability at August 31, 2016. No issues were noted.

We believe management’s process for identifying accounting estimates is considered adequate.

Data & Analytics in the audit

We have utilized Data & Analytics (D&A) in order to enhance the quality and effectiveness of the audit.

We have summarized areas of the audit where D&A tools and routines were used.

Area(s) of focus	D&A tools and routines	Our results
Journal entry testing	<ul style="list-style-type: none"> We utilized KPMG application software (IDEA) to evaluate the completeness of the journal entry population through a roll-forward of 100% of the accounts. 	<ul style="list-style-type: none"> No discrepancies noted.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Board's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.

We also highlight the following:

Form, arrangement, and content of the financial statements	Adequate
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Application of accounting pronouncements issued but not yet effective	No concerns at this time regarding future implementation
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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

The management representation letter includes the Summary of Uncorrected Audit Misstatements, which disclose the impact of all uncorrected differences considered to be other than clearly trivial.

Control observations

In accordance with professional standards, we are required to communicate to the Audit Committee any control deficiencies that we identified during the audit and have determined to be significant deficiencies in internal controls over financial reporting.

Significant deficiencies

No significant deficiencies came to our attention.

Appendices

Appendix 1: Required communications

Appendix 2: Value for fees

Appendix 3: Audit Quality and Risk Management

Appendix 4: Data & Analytics in the Audit

Appendix 5: Audit trends

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.
- **Management representation letter** –we will obtain from management at the completion of the annual audit. In accordance with professional standards, copies of the management representation letter are provided to the Audit Committee. The management representation letter is attached.

KPMG LLP
1400-140 Fullarton Street
London, Ontario N6A 5P2

November 8, 2016

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as “financial statements”) of Avon Maitland District School Board (“the Entity”) as at and for the period ended August 31, 2016.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

GENERAL:

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 9, 2015 and amended June 1, 2016, for:
 - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework
 - b) providing you with all relevant information, such as all financial records and related data, including the names of all related parties and information regarding all relationships and transactions with related parties, and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and access to such relevant information
 - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

- d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements

INTERNAL CONTROL OVER FINANCIAL REPORTING:

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

- 3) We have disclosed to you:
 - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
 - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, analysts, regulators, or others
 - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements
 - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

SUBSEQUENT EVENTS:

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

- 5) We have disclosed to you the identity of the Entity's related parties.
- 6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
- 7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

EMPLOYEE FUTURE BENEFITS:

- 8) The employee future benefits costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.
- 9) All arrangements (contractual or otherwise) by which programs have been established to provide employee benefits, which include post-employment benefits, and that are funded or unfunded have been disclosed to you and included in the determination of pension costs and obligations.
- 10) Each actuarial assumption used reflects management's best estimate solely with respect to that individual assumption, determined on a basis that the plan will continue to be in effect in the absence of evidence to the contrary.
- 11) The set of actuarial assumptions for each plan is individually consistent.
- 12) The assumptions included in the actuarial valuation are those that management instructed *School Boards' Co-Operative Inc. (SBCI)* to use in computing amounts to be used by the Entity in determining pension costs and obligations and in making required disclosures in the above-named financial statements, in accordance with the relevant financial reporting framework.
- 13) In arriving at these assumptions, management has obtained the advice of *SBCI*, but has retained the final responsibility for them.
- 14) The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.
- 15) All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension costs and obligations and as such have been communicated to you as well as to the actuary.
- 16) The extrapolations are accurate and properly reflect the effects of changes and events that occurred subsequent to the most recent valuation and that had a material effect on the extrapolation.
- 17) All material events and changes to the plan subsequent to the most recent actuarial valuation have been properly reflected in the extrapolation.

ESTIMATES:

- 18) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

MISSTATEMENTS:

- 19) The effects of the uncorrected misstatements described in **Attachment II** are immaterial, both individually and in the aggregate, to the financial statements as a whole.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

- 20) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission (“SEC”) Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Yours very truly,

Ted Doherty, Director of Education and Secretary of the Board

Cheri Carter, Associate Superintendent of Financial Services and Treasurer

I have the recognized authority to take, and assert that I have taken, responsibility for the financial statements

cc: Audit Committee

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the 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 are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

RELATED PARTIES

In accordance with Canadian Accounting Standards for the public sector, a *related party* is defined as:

- when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Two not-for-profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members.

In accordance with Canadian Accounting Standards for the public sector a *related party transaction* is defined as:

- a transfer of economic resources or obligations between related parties, or the provision of service by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

Attachment II – Summary of Audit Misstatements Schedules

F2015 Summary of Uncorrected Audit Misstatements

	Income Effect	Financial Position		
Description	Increase (Decrease)	Assets Increase (Decrease)	Liabilities Increase (Decrease)	Equity Increase (Decrease)
Impact of 2013 understatement of post-retirement benefit liability as a result of an error in the actuarial calculation	-	-	744,000	(744,000)
Total uncorrected misstatements	-	-	744,000	(744,000)

F2016 Summary of Uncorrected Audit Misstatements

	Income Effect	Financial Position		
Description	Increase (Decrease)	Assets Increase (Decrease)	Liabilities Increase (Decrease)	Equity Increase (Decrease)
Impact of correcting the 2013 understatement of post-retirement benefit liability as a result of an error in the actuarial calculation	744,000	-	-	-
Total uncorrected misstatements	744,000	-	-	-

Appendix 2: Value for fees

The Value of our Audit Services

We recognize that the primary objective of our engagement is the completion of the audit of the financial statements in accordance with professional standards. We also believe that our role as external auditor of the Board and the access to information and people in conjunction with our audit procedures, place us in a position to provide other forms of value. **We know that you expect this of us.**

We understand your expectations. To facilitate a discussion (either in the upcoming meeting or in separate discussions), we have outlined some of the attributes of our team and our processes that we believe enhanced the value of our audit service. We recognize that certain of these items are necessary components of a rigorous audit.

We welcome your feedback.

- Extensive industry experience on our audit team – as you have experienced, the senior members of our team have extensive experience in audits of companies in your industry. This experience ensures that we are well positioned to identify and discuss observations and insights that are important to you.
- Regular current development updates – we organize tailored information on current developments on financial reporting and other matters that are likely to be significant to the Board and your team. This information will assist the Board in proactively responding to / addressing financial reporting and regulatory changes.
- Involvement of specialists – Our audit team is supported by KPMG specialists in indirect taxes and information systems. Each of the specialists have provided insights and observations as a result of their audit support processes.

Appendix 3: 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 audit quality report, [Audit quality: Our hands-on process](#).

- 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; and
 - 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.

Appendix 4: Data & Analytics in Audit

Turning data into value

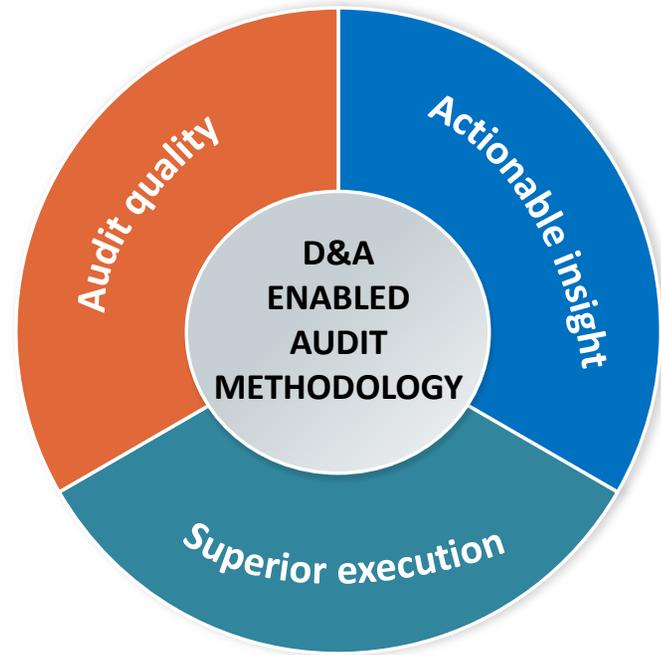
KPMG continues to make significant investments in our Data & Analytics (D&A) capabilities to help enhance audit quality and provide actionable insight to our clients by unlocking the rich information that businesses hold.

When D&A is applied to the audit, it enables us to test complete data populations and understand the business reasons behind outliers and anomalies.

Advancements in D&A tools allow us to analyze data at more granular levels, focusing on higher risk areas of the audit and developing insights you can then leverage to improve compliance, potentially uncover fraud, manage risk and more.

KPMG is enhancing the audit

The combination of our proven industry experience, technical know-how and external data allows us to focus our audit on the key business risks, while providing relevant insights of value to you.



FOR THE AUDIT

AUDIT QUALITY

- Automated testing of 100% of the population
- Focuses manual audit effort on key exceptions and identified risk areas

FOR YOUR BUSINESS

ACTIONABLE INSIGHT

- Helping you see your business from a different perspective
- How effectively is your

Appendix 5: Audit trends

KPMG understands the wide range of challenges and evolving trends that you face as an audit committee of Avon Maitland District School Board. We also understand that sometimes keeping up with critical issues as they emerge can be difficult.

As your auditors, it is incumbent upon us to provide you with any information that will help you further strengthen corporate governance, enhance your oversight and add greater value within your organization.

As such, KPMG's Audit Committee Institute ([ACI](#)) provides information, resources and opportunities for you to share knowledge with your peers. First, you are welcome to attend our Audit Committee Roundtable sessions, which are held in major cities across the country. In addition, you will also benefit from our monthly article series ([Audit Point of View](#)) and quarterly videos ([FrontPage Video Series](#)) that focus on the most pressing audit committee agenda items.

More information on all of these can easily be found at www.kpmg.ca/audit.

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 Avon Maitland District School Board. We would, of course, be happy to further discuss this information with you at your convenience.

Thought Leadership	Overview	Links
Cyber Security Risks	With the constant changing cyber threat landscape, companies are changing their risks-protection strategies, identifying core assets and qualifying threats.	KPMG: Cyber security FrontPage Video

kpmg.ca/audit



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