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AUDIT

Big Brothers Big Sisters of Victoria Capital Region

Audit Findings Report to the Finance Committee

For the year ended June 30, 2018

KPMG LLP

Contents

Audit findings summary

Overview

The purpose of this Audit Findings Report is to assist you, as a member of the Finance Committee, in your review of the results of our audit of the financial statements of Big Brothers Big Sisters of Victoria Capital Region ("the Society" or "BBBS") as at and for the period ended June 30, 2018.

We appreciate the assistance of management and staff in conducting our audit. We trust that this audit findings report is of assistance to you, and we look forward to discussing our findings and answering your questions.

Key findings

Areas of focus – Significant unusual transactions	• No significant unusual transactions were identified as part of our audit.
Areas of focus – Critical accounting estimates	• There have been no critical accounting estimates identified as part of our audit.
Areas of focus – 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.
Areas of focus – Financial statement presentation and disclosure	• There have been no significant changes to financial statement presentation or disclosure.
Misstatements	• We did not identify misstatements that remain uncorrected. • Corrected audit misstatements are detailed later in this report.
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 Society within the relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation.

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:

- completing our discussions with the Finance Committee;
- obtaining evidence of the Board's approval of the financial statements; and
- obtaining a signed management representation letter.

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

Materiality

- We determine materiality in order 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.
- For the current period, materiality of $40,000 has been determined for the overall financial statements.

Significant financial reporting risks

As part of our audit planning, we identify significant financial reporting risks that, by their nature, require special audit consideration. We have not identified any significant financial reporting risks.

Our audit focused on the areas identified during our audit planning as listed below.

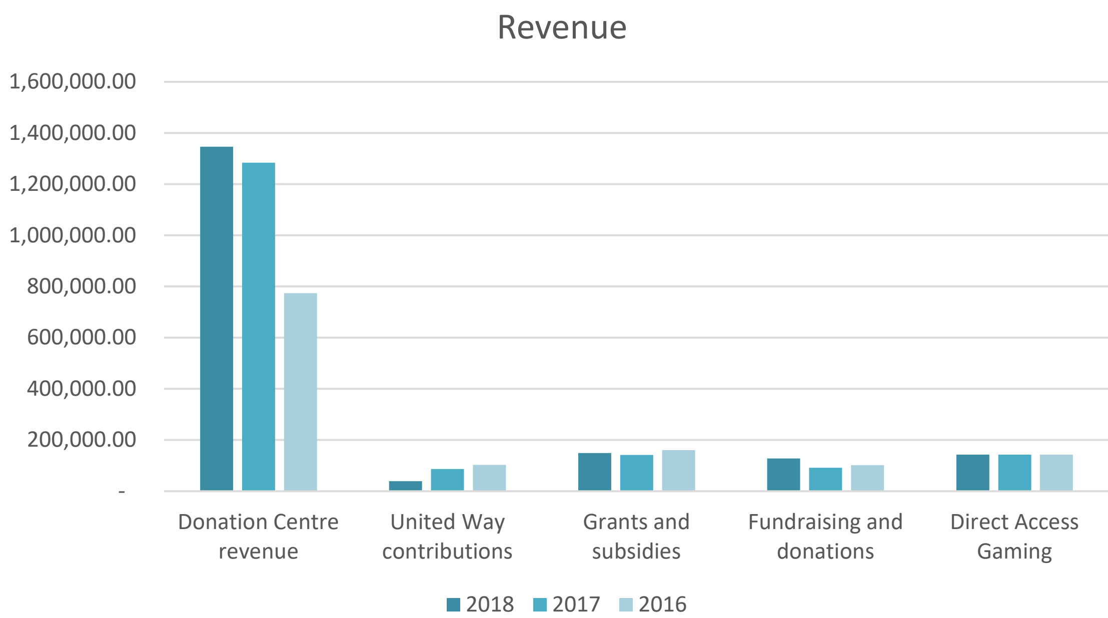
- Cash, bank indebtedness and term deposits were independently confirmed with external parties.
- Donation center revenue from Savers and United Way contributions were confirmed with third parties.
- Deferred contributions and grant revenue were tested through recalculation of direct access gaming grants applicable to the 2018 fiscal year and inspection of restrictions on grants and subsidies received during the year.
- Accounts payable tested for completeness through inspection of payments subsequent to year end.
- Substantive analytical procedures were performed on operating expenses, wages and personnel expense and other revenue.
- The financial statement disclosures were reviewed to ensure disclosures were in accordance with Canadian accounting standards for not-for-profit organizations.

Areas of focus

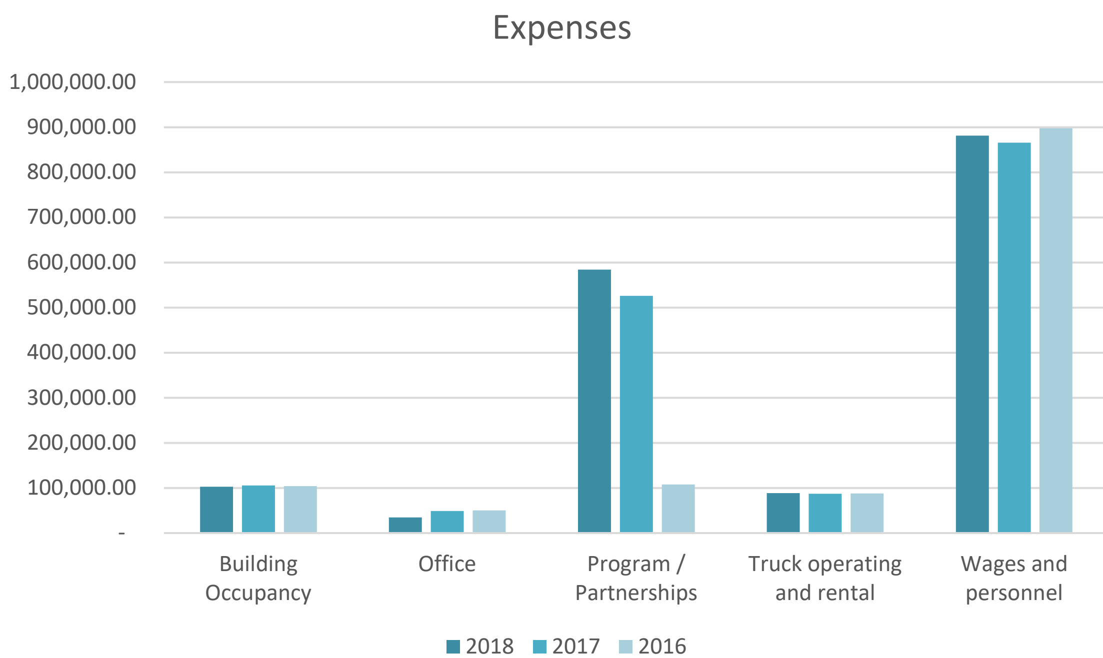
Included in this section are significant matters we believe are appropriate for discussion with the Finance Committee.

Truck lease expiry – future remediation expenses
• BBBS had three trucks with leases expiring September 1, 2018. The lease agreements stipulated that BBBS guarantee a specific residual value for the trucks. In the past, this clause has resulted in BBBS spending in excess of $25,000 to repair trucks so their residual values are in line with their agreed upon values. BBBS opted to purchase the trucks upon expiry of the lease as opposed to incurring remediation costs. The trucks were acquired August 31, 2018 at a total cost of $31,410.
KPMG comments
• KPMG obtained the purchase agreements between BBBS and Gold Key Sales and Lease Ltd. and confirmed the existence and accuracy of the truck additions. Based on the purchase agreements, we concur with management's assertion that no potential liability exists at year end for remediation costs. • BBBS will capitalize and amortize the trucks over their estimated remaining useful life. These new assets will be included in the 2019 financial statements.

Revenues
• United Way contributions decreased in the year from $86,000 to $39,000. The decline was a result of United Way not meeting their campaign targets. Additionally, management has noted United Way has been moving donors away from designating funds to their charity of choice which has had a negative overall impact on contributions. • Donation Centre revenue increased by $62,000 from $1,284,000 to $1,346,000. This increase relates to a significant expansion in the trailer purchase and resale program with Savers undertaken partway through FY17. The program was in effect for the duration of FY18 which led to the increase over prior year. • Fundraising and Donations increased by $36,000 from $92,000 to $128,000. This increase of approximately 39% primarily relates to the success of the Bowl for Kids Sake Event in FY18.
KPMG comments
• KPMG performed substantive analytic procedures over financial statement line items categorized as revenue. • Donation Centre revenue and United Way contributions were confirmed with the associated parties. • KPMG performed test of details over grants and subsidies and fundraising and donations, and traced a sample of grants to associated documentation and cash receipt. • During our testing of grants and deferred revenue, we identified two audit adjustments. Both related to grants received from Children's Health Foundation for projects to be undertaken in FY19; Go Girls Westshore for $16,000 and In School Mentoring Comox for $11,000. Whilst the grants had originally been recognized as revenue, as they relate to future projects we raised audit adjustments to record these grants as deferred revenue. • During our testing of grants we identified a capital gaming grant of $16,500 had not been appropriately treated. Externally restricted contributions for capital assets are to be deferred and amortized into revenue at the same amortization rate as the related assets purchased with the contribution. The full amount of the contribution was spent during the year on computer equipment which is amortized on a declining balance basis at a rate of 30%. Management has reclassified the unamortized deferred capital contribution to its own caption on the statement of financial position and adjusted the amount of revenue related to the contribution. • We noted that the cash in the gaming bank account did not agree to the deferred gaming revenue balance at year end. The difference of $16,500 more in the bank account than in deferred revenue related to the capital grant discussed above. As the funds have been spent we recommend that management move the cash from the gaming account to the operating account on a timely basis.



Expenses
• Program/Partnerships expenses increased by $58,000 in the year. This increase relates to a significant expansion in the trailer purchase and resale program with Savers undertaken partway through FY17. The program was in effect for the duration of FY18 which led to the increase over prior year. • All other expenses remained relatively consistent year over year.
KPMG comments
• KPMG performed substantive analytical procedures over expenses and substantive testing of cut-off of expenses. No discrepancies were noted.



Note: This table illustrates the five largest financial statement expense captions and includes the total expenses from Operations and Donation Centre for each caption.

Misstatements

Misstatements identified during the audit have been categorized as follows:

- corrected misstatements, including disclosure misstatements
- uncorrected misstatements, including disclosure misstatements.

Corrected misstatements

	Net income (loss)	Financial position		
Description	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Net assets (Decrease) Increase**
To reclassify amounts due to BBBS that were originally classified in accounts payable.	-	3,060	(3,060)	-
To reclassify a grant related to FY19 projects from revenue to deferred revenue.	(16,000)	-	16,000	(16,000)
To reclassify a grant related to FY19 projects from revenue to deferred revenue.	(11,000)	-	11,000	(11,000)
To reclassify a deferred capital contribution and adjust revenue recognized.	(7,372) 4,950	- -	(9,128) 11,550	(2,422) -
To adjust errors in balance sheet accounts related to bonuses and capital grant.	-	(12,479)	(12,479)	-
Total	**$ (29,422)**	**$9,419**	**$13,883**	**$ (29,422)**

Uncorrected misstatements

We did not identify differences that remain uncorrected.

Control deficiencies

Background and professional standards

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation 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 internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. 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.

Identification

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

Appendices

Management representation letter

Current developments

Management representation letter

Prior to release of the auditors’ report, the Executive Director and the Financial Administrator will be providing KPMG with a letter confirming their conclusion that the accounts are fairly presented, complete and accurately reported in the financial statements.

The anticipated form of this letter is included in the following pages.

BIG BROTHERS BIG SISTERS OF VICTORIA CAPITAL REGION

230 BAY STREET

VICTORIA, BC V9A 3K5

KPMG LLP
Chartered Accountants
St. Andrew's Square II
800 – 730 View Street
Victoria, BC V8W 3Y7

October 23, 2018

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 financial statements (hereinafter referred to as "financial statements") of Big Brothers Big Sisters of Victoria Capital Region ("the Entity") as at and for the period ended June 30, 2018.

General:

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 also 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:

Responsibilities:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated September 29, 2014 and amended October 13, 2017, 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 information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including:

      (i) the names of all related parties and information regarding all relationships and transactions with related parties; and

      (ii) the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, board of directors and committees of the board of directors that may affect the financial statements. All significant actions are included in such summaries.

   c) providing you with unrestricted access to such relevant information.

   d) providing you with complete responses to all enquiries made by you during the engagement.

e) providing you with additional information that you may request from us for the purpose of the engagement.

f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.

g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

h) 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 we are 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 that involves:

— management;

— employees who have significant roles in internal control over financial reporting; or

— others

where such fraud or suspected fraud could have a material effect on the financial statements.

c) all information in relation to allegations of fraud, or suspected fraud, affecting the 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.

Estimates:

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

Going concern:

9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.

10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

Misstatements:

11) We approve the corrected misstatements identified by you during the audit described in Attachment II.

Other:

12) The Entity is a registered charity in good standing in Canada.

13) We have appropriately computed and remitted payroll remittances to the Receiver General including income taxes, Canada Pension Plan premiums and Employment Insurance premiums.

Yours very truly,

By: Rhonda Brown, Executive Director

By: James McKillop, Financial Administrator

Cc: Finance 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 not-for-profit organizations a *related party* is defined as:

- Related parties exist 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 not-for-profit organizations a *related party transaction* is defined as:

- A related party transaction is a transfer of economic resources or obligations between related parties, or the provision of services 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 corrected audit misstatements

	Net income (loss)	Financial position		
Description	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Net assets (Decrease) Increase**
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Current Developments

Canadian Accounting Standards for Not for Profit Organizations

In 2015, the Accounting Standards Board (AcSB) created the Not-for-Profit Advisory Committee to act in an advisory capacity to the AcSB with respect to accounting standards in Part III of the CPA Canada Handbook for not-for-profit organizations (NFPOs) in the private sector. The mandate of the committee is to assist the AcSB in developing improvements to private sector not-for-profit accounting and reporting.

The AcSB has approved three projects to address the following accounting standards areas:

i. Accounting Standards Improvement – Phase 1

- Tangible capital assets
- Intangible assets
- Works of art, historical treasures, collections and similar items
- Related party transactions
- Allocated expenses

ii. Accounting Standards Improvement – Phase 2

- Controlled and related entities
- Expense reporting by function and object
- Economic interests

iii. Contributions – Revenue Recognition and Related Matters

- Contributions
- Size exemption ($500,000) for tangible capital assets and intangibles
- Financial statement presentation

The first three revised sections to the CPA Canada Handbook - Accounting Part III were recently released, updating the standards relating to **Tangible Capital Assets, Intangible Assets and Collections**.

The key features of the new standards are summarized as follows:

Tangible Capital Assets & Intangible Assets (superseded sections 4431 & 4432 replaced by 4433 & 4434):

- NFPOs are now directed to follow PROPERTY, PLANT AND EQUIPMENT, Section 3061, GOODWILL AND INTANGIBLE ASSETS, Section 3064, and ASSET RETIREMENT OBLIGATIONS, Section 3110 in Part II of the Handbook for tangible capital assets and intangible assets held by NFPOs, except for the guidance included in Sections 4433 and 4434 related to items such as contributed assets and write-downs of assets. Applying Section 3061 requires considering the guidance on componentization (see paragraph 3061.18), which was not previously required.
- The new standard requires a tangible capital asset or intangible asset be written down to its fair value or replacement cost to reflect a partial impairment of the asset when conditions indicate that the asset no longer contributes to an organization's ability to provide goods and services, or that the value of future economic benefits or service potential associated with the asset is less than its net carrying amount.

- A list of examples of conditions that may be present to indicate impairment of tangible capital assets or intangible assets is provided.
- NFPOs are directed to follow the disclosure requirements in IMPAIRMENT OF LONG LIVED ASSETS, Section 3063 in Part II for impairments of tangible capital assets and intangible assets.

Works of art, historical treasures and similar items not part of a collection

- NFPOs continue to account for works of art, historical treasures and similar items not part of a collection as tangible capital assets, intangible assets, investments or as inventory type items depending on their intended use (i.e., in accordance with INVENTORIES HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 3032, and INVESTMENTS, Section 3051 in Part II, and Sections 4433 or 4434).

Collections (current section 4440 to be replaced by 4441):

- Collections are to be recorded on the statement of financial position.
- An NFPO is to make an accounting policy choice to record collections at cost or at nominal value and that choice is applied to all of its collections.
- Guidance on determining cost has been added. A collection recorded at cost is to be written down to its fair value or replacement cost to reflect partial impairment of the collection whenever events or changes in circumstances indicate that its net carrying value may exceed fair value.
- A list of examples of conditions that may be present to indicate impairment of a collection is provided.
- Guidance on disposing of items in a collection has been added. For disposal of items contributed to a collection that are subject to external restrictions, the gain or loss is to be accounted for in accordance with CONTRIBUTIONS — REVENUE RECOGNITION, Section 4410. However, for items in a collection that do not have external restrictions and are disposed of, the gain or loss is to be recognized in the statement of operations.
- An NFPO is to disclose whether the write-down of a collection is measured at the collection's fair value or replacement.

The new sections are to be adopted for fiscal years beginning on or after January 1, 2019, on a prospective basis. Earlier adoption is permitted.

Further information on the Committee and future meeting topics can be found at the following link: http://www.frascanada.ca/standards-for-not-for-profit-organizations/acsb-not-for-profit-advisory-committee/meeting-notes/item83541.aspx

Canada Revenue Agency Charities Education Program

The Canada Revenue Agency ("CRA") announced The Charities Education Program (the "Program") whereby 500 charities will be selected annually for a visit by a CRA charity education officer to review its books and records, provide feedback on their accuracy and completeness and advice on how to address potential issues. The Program's objective is to help charities avoid common errors and to understand their obligations.

The charity review differs from an audit as CRA will provide a summary of findings and recommendations. We recommend that each Society discuss these findings with KPMG prior to signing the summary of acknowledgement of their responsibility for the findings.

Cyber Security - It’s more than just Technology

Organizations are subject to increasing amounts of legislative and public pressures to show they are managing and protecting their information appropriately. Simultaneously, the threats from cyber criminals and hackivists are growing in scale and sophistication. Organizations are also increasingly vulnerable as a result of technological advances and changing working practices including remote access, cloud computing, mobile technology and services on demand. The financial and reputational costs of not being prepared against a cyber-attack could be significant.

Cyber Security is not solely about Information Technology; it is fundamentally an operational and governance issue. Not-for-profit organizations should develop an operations-wide understanding of their threats, safeguards, and responses. Preparing this summary diagnostic will require the involvement of individuals in all areas of the organization, including those involved in hiring, procurement, customer relations and management. Key elements to consider include:

- Assessing the likelihood and intensity of a cyber-attack, based on the value of your information and your public profile
- Assessing your vulnerabilities to a cyber-attack
- Preparing your people, processes, infrastructure and technology to resist a cyber-attack, and to minimize its impact
- Detecting a cyber-attack and initiating your response
- Containing and investigating the cyber-attack
- Recovering from a cyber-attack and resuming business operations
- Reporting on and improving security

Not-for-profit organizations are at particular risk due to the information they maintain, including research data, member or student data, and health information. The reputational risk of this information not being adequately protected can often outweigh the financial consequences of a breach.

Not-for-profit organizations need to review their operations and consider cyber risks, then assess the organization’s cyber maturity in addressing those risks. Structured models for completing this exercise exist for organizations of all sizes, as no one is immune to the risk of a cyber-attack.

KPMG in Canada, in collaboration with Imagine Canada, recently presented a webinar called "Cyber Security: The new threat for Not-for-Profit Organizations". We encourage you to view this webinar on Imagine Canada’s website at:

http://sectorsource.ca/resource/video/cyber-security-not-profit-organizations-presented-kpmg

The importance of Enterprise Risk Management to a Not-for-Profit organization

Not-for-Profit organizations are facing unprecedented challenges in terms of ensuring that they can:

- fulfill growing client, stakeholder and donor demands;
- adapt to changing demographics;
- strengthen corporate governance;
- respond to greater transparency and accountability expectations;
- attract and retain highly qualified and experienced staff;
- meet ever increasing operating and capital needs;
- rise to competitive challenges;
- leverage information technology to improve service delivery and administration; and
- protect and enhance brand and reputation.

Strong governance, supported by effective risk management, are foundational to a Not-for-Profit organization's ability to anticipate and effectively respond to these complex challenges.

This Report should not be used for any other purpose or by anyone other than those charged with governance. 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.