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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, 2016

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, 2016.

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 changes to financial statement presentation and disclosure.
Misstatements	• We identified misstatements that were communicated to management and subsequently corrected in the financial statements. Please see the management representation letter in the appendix for details. • We did not identify misstatements that remain uncorrected.
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.
- 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 $30,000 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.

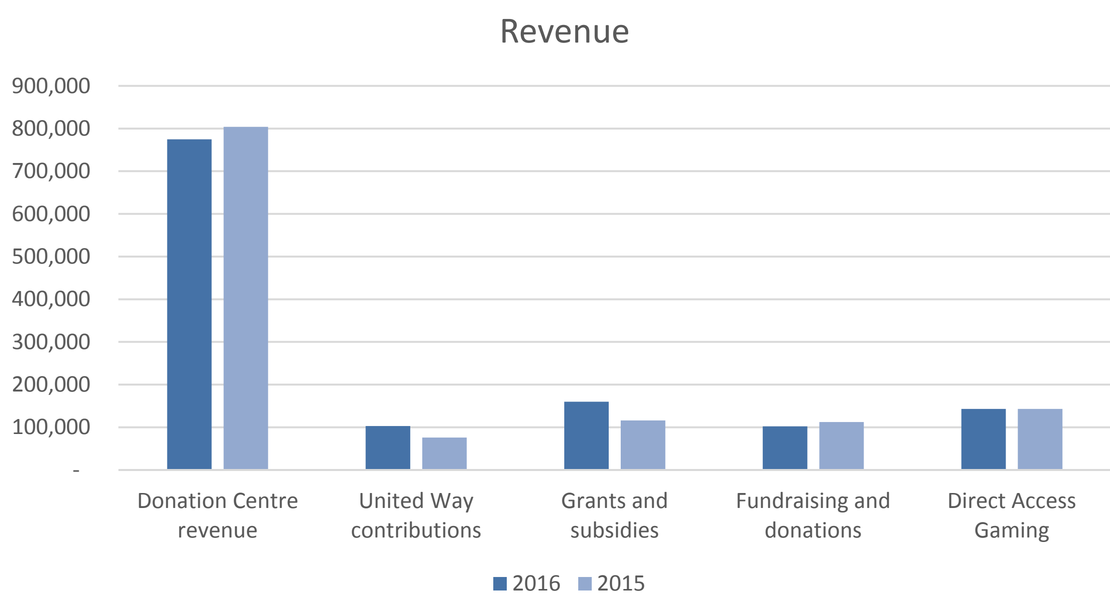
- Cash, bank indebtedness and term deposits were independently confirmed with external parties. A sample of significant reconciling items on the bank reconciliations were tested to ensure they were recorded in the correct period.
- Donation center revenue and United Way contributions were confirmed with third parties.
- Deferred contributions and grant revenue were tested through recalculation of direct access gaming grants applicable to the 2016 fiscal year and inspection of restrictions on grants and subsidies received during the year.
- Accounts payable was 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

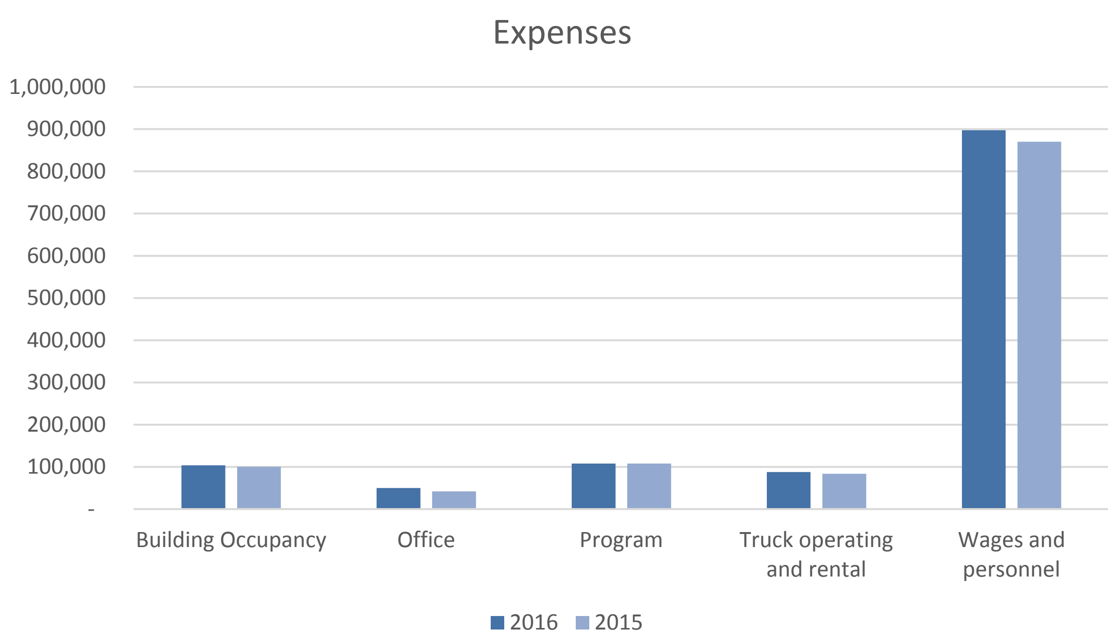
Included in this section are significant matters we believe are appropriate for discussion with the Finance Committee.

Endowment Fund with the Victoria Foundation
• BBBS entered into an agreement with the Victoria Foundation to contribute to a hosted endowment fund with the Victoria Foundation. BBBS contributed $7,500 to start the Fund and the Victoria Foundation has matched these funds bringing the total fund balance to $15,000. • The endowment will be held by the Victoria Foundation in perpetuity. The monies earned on the endowment (less an administration fee) are returned to BBBS as grants for its programs. If BBBS ceases to operate, then the Endowment will be used by another charitable organization at the Victoria Foundation's discretion. • BBBS had initially recorded this fund as an asset on the balance sheet.
KPMG comments
• KPMG inspected the contract with the Victoria Foundation and confirmed the terms as noted above. • KPMG inspected the fund statement at June 30, 2016 to confirm the fund balance at June 30, 2016. • KPMG proposed and management agreed that monies paid into the fund should be recorded as an expense in the current year. The primary reason for this treatment is that BBBS no longer controls the monies and the funds are held by the Victoria Foundation in perpetuity. This treatment is consistent with other charitable organizations with funds with the same terms. • Any grants received from this fund will be recognized as revenue when received or receivable from the Foundation. The fund balance and grants received during the year have appropriately been disclosed in the notes to the financial statements.

Revenues
• Donation Centre revenue decreased by $29,000 from $804,000 to $775,000. This decrease of approximately 4% relates to fluctuations in clothing donations. • United Way contributions increased in the year from $76,000 to $103,000. A new agreement was negotiated in 2015, which resulted a number of months without a contract in place. The funding gap was due to a change in the grant cycle of United Way that impacted all recipients under three year funding commitments that concluded in 2015. In 2016, a return to a full year of funding under the new agreement occurred. • Grant and subsidies increased in the year from $116,000 to $160,000. KPMG noted two new grants in the year, one from Island Savings and the other from Provincial Employees Community Service Fund.
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 a test of details over grants and subsidies and fundraising and donations, and traced a sample of grants to associated documentation and cash receipt.



Expenses
• The financial statements present an increase of wages and personnel expenses in the year. This was primarily a result of the addition of a co-op student in the year to help out with the Bowl for Kids event. • 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

We identified misstatements that were communicated to management and subsequently corrected in the financial statements. Please see the management representation letter in the appendix for details.

Uncorrected misstatements

We have not identified misstatements 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 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

Date

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") which comprise the statement of financial position as at June 30, 2016, the statements of operations, changes in net assets and cash flows for the year ended June 30, 2016, and notes, comprising a summary of significant accounting policies and other explanatory information. These financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations.

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 engagement letter dated September 29, 2014, 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 and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared of 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

   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 risks 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, 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.

COMMITMENTS & CONTINGENCIES:

4) There are no:

   a) other liabilities that are required to be recognized and no other contingent assets or contingent liabilities that are required to be disclosed in the financial statements in accordance with the relevant financial reporting framework, including liabilities or contingent liabilities arising from illegal acts or possible illegal acts, or possible violations of human rights legislation.

   b) other environmental matters that may have an impact on the financial statements.

SUBSEQUENT EVENTS:

5) 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:

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

ESTIMATES:

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

ESTIMATES:

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

OTHER:

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

10) 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,

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

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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

Big Brothers Big Sisters of Victoria Capital Region

Year End: June 30, 2016
Corrected audit differences
Date: 7/1/2015 To 6/30/2016

Number	Date	Name	Account No	Debit	Credit
1	6/30/2016	Victoria Foundation	14100		7,500.00
1	6/30/2016	Opening Balance Equity	30000		7,500.00
1	6/30/2016	Fund Balance - Victo	30200	7,500.00	
1	6/30/2016	Fundraising	40650	7,500.00	
		To adjust accounting for Endowment held with Victoria Foundation. Asset removed and the full amount of the Endowment expensed.			
2	6/30/2016	Island Savings Credi	10200	6,790.13	
2	6/30/2016	Bank indebtedness	KPMG 1		6,790.13
		To reclassify overdraft to bank indebtedness.			
3	6/30/2016	Leaseholds	15500		2,411.00
3	6/30/2016	Accum Amort - Leaseh	15510	2,411.00	
3	6/30/2016	Leaseholds - D	18100		3,171.85
3	6/30/2016	Accum Amort - Leaseh	18150	3,171.85	
		To remove fully amortized assets.			
				27,372.98	**27,372.98**

Current developments

British Columbia Society Act

A White Paper was issued by the BC Ministry of Finance in August 2014 that set out policy recommendations and included draft legislation to modernize and update the BC Society Act that provides rules for the incorporation and governance of not-for-profit organizations in B.C.

Significant proposals in the White Paper included new corporate and governance procedures, reduced regulatory burden for member funded societies, increased regulatory burden for charities and publicly funded societies. Additionally, a majority of their directors must not be entitled to receive remuneration under contracts of employment or service. These societies will also be required to publicly disclose the amount of remuneration paid to their directors and their ten highest paid employees and contractors.

On November 23, 2015, by Order in Council No. 673, the new British Columbia Societies Act was proclaimed as coming into force on November 28, 2016. Existing societies will have to transition under the new Act within two years after November 28, 2016. Management should consult with their legal counsel on the potential implications of the Act to the Society.

BC Supreme Court Ruling on Restricted Gifts

The British Columbia Supreme Court recently released a decision, Re Mulgrave School Foundation, which discusses charitable gifts that are made for a specific charitable purpose and whether it is possible to change that purpose.

In this case the donors and school had restricted their gift to be an endowment. The donors subsequently consented to the use of their donations being varied so that they could be used for the construction of the facility. The BC Supreme Court, however, refused to allow the donations intended to be used for scholarships to be used in the construction of the school after considering the lack of any evidence showing an impossibility or impracticality of carrying out the intended purpose of the original donation.

This decision is important because it confirms that once donors have donated funds to a charitable purpose, the donor loses any further interest in those funds once the gift is complete. In this regard, the consent of the donors is not determinative, and does not provide the directors of a charity with authorization if they decide to use funds restricted for particular purpose for another purposes without court approval, which may not always be available.

As a result, charities should be cautious before encouraging donors to make gifts with restrictions attached to them unless appropriate wording is included in the gift agreement giving the charity the power to vary a restriction or encroach on an endowment, where applicable. At minimum such an agreement would provide that such changes are with the donor consent or that of the personal representative of the donor, but otherwise it could be with a decision of the board of directors.

Details of the court ruling are available at:
http://www.globalphilanthropy.ca/images/uploads/Mulgrave_School_Foundation,_Re.pdf

Canadian Accounting Standards for Not for Profit Organizations

In April 2013, the Accounting Standards Board ("AcSB") and the Public Sector Accounting Board ("PSAB") jointly issued a Statement of Principles ("SOP") that proposed to revise Part III of the CPA Canada Handbook and the CPA Public Sector Accounting Handbook to streamline and improve the existing standards for financial reporting by not-for-profit organizations and Government not-for-profit organizations.

The SOP proposed to remove many of the special rules that not-for-profit organizations use today in preparing their financial statements and require that they adopt rules that are more aligned with commercial enterprises and the public sector standards.

The SOP garnered much interest from the Not-for-Profit community and, based on the feedback the Boards received, the proposals did not proceed further through the accounting standards development process. In March 2015, citing different financial reporting challenges, user needs and differing priorities faced by PSAB and the AcSB, the Boards announced that they would independently pursue improvements to not-for-profit accounting standards, but collaborate on common issues.

In 2015, AcSB created the Not-for-Profit Advisory Committee to act in an advisory capacity to the AcSB with respect to accounting standards 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 including responding to the matters raised in response to the SOP.

The AcSB has approved three projects to address the proposals in the Statement of Principles. These three projects are outlined below.

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

At its first two meetings (in January and June of 2016), the Committee discussed the following issues, as published in its meeting notes. Meeting notes are prepared by AcSB staff based on discussions held by the Committee; they are not authoritative.

Tangible Capital Assets & Intangible Assets:

- The Committee suggested the following to the AcSB:
  - Elimination of the guidance in Sections 4431 & 4432 in Part III of the CPA Canada Handbook - Accounting that duplicates the guidance in Part II; NFPOs would be directed to the relevant guidance in Part II,
  - Retain guidance in Sections 4431 & 4432 relating to circumstances unique to not-for-profit organizations,
  - Require NFPOs to recognize partial impairments to reflect a decline in the value of the assets
  - Continue to require NFPOs to recognize works of art and historical treasures not part of a collection in accordance with their intended use (i.e. as capital assets or inventory-type items)
- The proposals would require NFPOs to follow the guidance in HB Section 3061 relating to componentization when practicable. The committee identified no unique characteristics or reasons why NFPOs should be different than other entities and not be required to consider componentization.
- An exposure draft is expected in 2016.

Collections:

- The Committee noted the variety of practices in accounting for collections, as currently provided under Section 4440. Although comparability among entities under the current standard is difficult, the Committee did not feel that requiring NFPOs to record a nominal amount on the statement of financial position would provide any more useful information. The committee agreed to recommend NFPOs record collections at cost or provide a note reference on the statement of financial position and that the choice between one or the other be a policy choice applicable to all collections owned by the NFPO. The committee also agreed to request the AcSB consider requiring NFPOs to recognize partial impairments to reflect a decline in value.
- An exposure draft is expected in 2016.

Disclosure of Related Party Transactions and Combinations:

- The Committee discussed concerns with the definition of a related party with respect to NFPOs and with the measurement of business combinations under common control. The Committee is suggesting to the AcSB that the definition of a related party be clarified, and that a separate project on measurement of related party transactions for NFPOs be initiated.
- The Committee also discussed the need for a project on accounting for combinations.

Disclosure of Allocated Expenses:

- The Committee discussed whether NFPOs should continue to apply Section 4470. The arbitrary nature of allocating expenses and the entity-specific nature of allocation decisions result in information about allocated expenses that is not comparable amongst NFPOs. The Committee is requesting that the AcSB re-examine Section 4470 to ensure that the information required is useful to the users of financial statements of NFPOs.

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 **.** We expect there will be ongoing outreach activities by the AcSB as the above projects proceed and exposure drafts are released, including webinars and roundtables to encourage feedback.

Cyber Security, Is your organization at risk?

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