

**Regional District of Nanaimo  
Report to the Board of Directors**

*For the Year Ending December 31, 2018*

For presentation at the Board of Directors meeting May 14, 2019

May 14, 2019

Members of the Board of Directors of Regional District of Nanaimo

Dear Members of the Board of Directors:

We are pleased to submit to you this report for discussion of our audit of the consolidated financial statements of Regional District of Nanaimo (the "Regional District") as at December 31, 2018 and for the year then ended. In this report we cover those significant matters which, in our opinion, you should be aware of as members of the Board of Directors.

We have completed our audit of the consolidated financial statements of the Regional District which has been carried out in accordance with Canadian generally accepted auditing standards.

Our Independent Audit Report will provide an unqualified opinion to the Board of Directors of the Regional District.

This report is intended solely for the information and use of the Board of Directors and management and should not be distributed to or used by any other parties than these specified parties.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks in your business or all control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

We would like to express our appreciation for the excellent cooperation we have received from management and employees with whom we worked.

We appreciate having the opportunity to meet with you and to respond to any questions you may have about our audit, and to discuss any other matters that may be of interest to you.

Sincerely,

A handwritten signature in black ink that reads "MNP LLP". The letters are stylized and cursive.

**MNP LLP**  
**Chartered Professional Accountants**

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## INTRODUCTION

As auditors, we report to the Board of Directors on the results of our examination of the consolidated financial statements of Regional District of Nanaimo (the "Regional District") as at and for the year ended December 31, 2018. The purpose of this Audit Findings Report is to assist you, as members of the Board of Directors, in your review of the results of our audit. To facilitate in your understanding of our findings, Appendix A to this report summarizes our audit process.

Our report will discuss the status of our engagement, as well as communicate to you significant audit, accounting and reporting matters arising from our procedures. We hope that this report is of assistance to you, and we look forward to discussing our findings and answering your questions.

## ENGAGEMENT STATUS

We have completed our audit of the consolidated financial statements of the Regional District and are prepared to sign our Independent Auditor's Report subsequent to completion of the following procedure:

- The Board of Directors' review and approval of the consolidated financial statements.

We expect to have the above procedure completed and to release our Audit Report on May 14, 2019. Our report, will provide an unqualified opinion.

## SIGNIFICANT AUDIT, ACCOUNTING AND REPORTING MATTERS

### CHANGES FROM AUDIT SERVICE PLAN

There were no deviations from the Audit Service Plan previously presented to you.

## AREAS OF AUDIT EMPHASIS

The following lists the key areas of our audit emphasis for your Regional District:

- The reasonableness of the estimate of the liability for landfill closure and post-closure maintenance costs.

Detailed information on Areas of Audit Emphasis is included as Appendix B to this report.

## FINAL MATERIALITY

Materiality is a concept used to assess the significance of misstatements or omissions that are identified during the audit and is used to determine the level of audit testing that is carried out. The scope of our audit work is tailored to reflect the relative size of operations of the Regional District, and is affected by our assessment of materiality and audit risk.

Final materiality used for our audit was \$3,000,000 for December 31, 2018. This amount is calculated as 3% of total annual revenue.

## **SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL**

Our audit process focuses on understanding the controls utilized in management's reporting systems to the extent necessary to identify overall and specific financial reporting risks. This risk assessment allows us to concentrate our audit procedures on high risk areas and, where possible, place reliance on controls within the financial reporting system to reduce the extent of our testing.

It is important to note that our assessment was not, nor was it intended to be, sufficient to comment or conclude on the sufficiency of internal controls.

We are required under Canadian generally accepted auditing standards to communicate all significant deficiencies identified during an audit to the Board of Directors on a timely basis. However, we may not be aware of all significant deficiencies that do, in fact, exist.

While our review of controls was not sufficient to express an opinion as to their effectiveness or efficiency, no significant deficiencies in internal control have come to our attention.

## **DIFFICULTIES ENCOUNTERED**

No significant limitations were placed on the scope or timing of our audit.

## **IDENTIFIED OR SUSPECTED FRAUD**

Due to the inherent limitations of an audit and the nature of fraud, including attempts at concealment through forgery or collusion, an audit conducted in accordance with Canadian generally accepted auditing standards cannot be relied upon to detect fraud.

While our audit cannot be relied upon to detect all instances of fraud, no incidents of fraud, or suspected fraud, came to our attention in the course of our audit.

## **IDENTIFIED OR SUSPECTED NON-COMPLIANCE WITH LAWS AND REGULATIONS**

Nothing has come to our attention that would suggest any non-compliance with laws and regulations that would have a material effect on the consolidated financial statements.

## **MATTERS ARISING IN CONNECTION WITH RELATED PARTIES**

No significant matters arose during the course of our audit in connection with related parties of the Regional District.

## **GOING CONCERN**

We have not identified any material uncertainties related to events or conditions that may cast significant doubt on the Regional District's ability to continue as a going concern.

We are of the opinion that the going concern assumption is appropriate in preparation of the consolidated financial statements.

## AUDITOR'S VIEWS OF SIGNIFICANT ACCOUNTING PRACTICES

The application of Canadian public sector accounting standards allows and requires the Regional District to make accounting estimates and judgments regarding accounting policies and financial statement disclosures.

As auditors, we are uniquely positioned to provide open and objective feedback regarding your Regional District's accounting practices, and have noted the following items during the course of our audit that we wish to bring to your attention.

### ***Accounting Policies***

- The accounting policies used by the Regional District are appropriate and have been consistently applied.

### ***Accounting Estimates***

#### **Landfill liability**

- The unfunded liabilities for landfill closure costs and post-closure monitoring costs represent a significant liability in the Regional District's financial statements. For 2018 the estimate for landfill closure costs was \$12,077,404 (2017 - \$9,677,527), and for post closure maintenance costs was \$5,185,813 (2017 - \$5,601,807) for a total landfill liability of \$17,263,217 (2017 - \$15,279,334). These costs are an estimate, based on factors such as landfill capacity, remaining unused capacity, projected future costs to close and to monitor the site, and an appropriate discount rate used to determine a present value of these future costs. It is important to note that the landfill remaining unused capacity amount used in the calculation is based on the impact of board-approved capital projects as at the reporting date. Projects not yet approved that may further increase capacity and useful life are not factored into the calculation.

Changes to the underlying assumptions and estimates or legislative changes in the new term could have a material impact on the provision recognized. We have concluded that the accounting related to the Landfill Closure and Post-Closure Liabilities was appropriate.

#### **Employee future benefits**

- Employee retirement benefits include payouts of accumulated, unused sick leave upon an employee's retirement. As at December 31, 2018, the estimated sick leave liability was \$1,805,221 (2017 - \$1,797,849). An expense and corresponding liability is recorded now for the estimate of the future costs of these payouts, related to current service by current employees. This liability is an estimate, based on factors such as number of current employees in various age groups, number of recent employees over age 40 who have been employed with the Regional District until retirement, and an appropriate discount rate used to determine a present value of these future costs. Changes to the underlying assumptions and estimates or union contract changes in the new term could have a material impact on the reserve recorded. The estimate also includes assumptions regarding retirement dates, hours worked and sick time. We have concluded that the accounting related to Employee Retirement Benefits was appropriate. This estimate is calculated by an actuary hired by the Regional District.

### ***Financial Statement Disclosures***

The disclosures made in the notes to the consolidated financial statements appear clear, neutral and consistent with our understanding of the entity and the amounts presented in the consolidated financial statements.

## **MATTERS ARISING FROM DISCUSSIONS WITH MANAGEMENT**

We would like to formally acknowledge the cooperation and assistance we received from the management and staff of the Regional District.

There were no significant matters discussed, or subject to correspondence, with management that in our judgment need be brought to your attention.

## **SIGNIFICANT DIFFERENCES**

No significant differences were proposed to management with respect to the December 31, 2018 consolidated financial statements.

## **MODIFICATIONS TO THE INDEPENDENT AUDITOR'S REPORT**

As discussed earlier, our independent auditor's report will provide an unqualified opinion to the Board of Directors.

## **MANAGEMENT REPRESENTATIONS**

We have requested certain written representations from management, which represent a confirmation of certain oral representations given to us during the course of our audit.

## **AUDITOR INDEPENDENCE**

We are aware of the following relationship between the Regional District and MNP that, in our professional judgment, may reasonably be thought to bear on our independence. The following relationship represents matters that have occurred from January 1, 2018 to May 14, 2019.

During the year, MNP was engaged to perform an IT procurement review with respect to computer hardware contracts. To safeguard our independence, the work was performed by MNP's Advisory team based in Victoria, with no involvement by the audit team.

During the year, MNP was engaged to assist the Regional District with a financial analysis of the Nanaimo Recycle Exchange's funding request. No information from that project would impact the Regional District's current consolidated financial statement results. As a result, there is no independence threat.

MNP's valuations team was also engaged during the year to assist the Regional District with financial due diligence on its organic waste processing contract. To safeguard our independence, the work was performed by MNP's valuation team based in Vancouver, with no involvement on the audit team.

In addition, final quality control review on the audit was performed by an MNP partner in our Abbotsford office.

We confirm to the Board of Directors that we are independent of the Regional District. Our letter to the Board of Directors discussing our independence is included as part of the additional materials attached to this report.

## APPENDIX A – MNP Audit Process

Our audit was carried out in accordance with Canadian generally accepted auditing standards, and included a review of all significant accounting and management reporting systems, with each material year end balance, key transaction and other events considered significant to the consolidated financial statements considered separately.

Our audit process focused on understanding the controls utilized in management's reporting systems to the extent necessary to identify overall and specific financial reporting risks. This risk assessment enabled us to concentrate our audit procedures on the areas where differences were most likely to arise. Our assessment was not, nor was it intended to be, sufficient to conclude on the effectiveness or efficiency of internal controls.

During the course of our audit, we have:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessed the accounting principles used and significant estimates made by management;
- Obtained an understanding of the Regional District and its environment, including management's internal controls (regardless of whether we relied on them for the purpose of the audit), sufficient to identify and assess the risks of material misstatement of the consolidated financial statements and to design and perform audit procedures;
- Reviewed and assessed those accounting systems deemed necessary to support our audit opinion;
- Evaluated the overall consolidated financial statement presentation;
- Performed a subsequent events review with management;
- Reviewed and assessed the status of contingencies, commitments and guarantees;
- Reviewed and assessed exposure to environmental liabilities.

We have obtained written representations from management, included as additional materials following this report, in order to confirm oral representations given to us and reduce the possibility of misunderstanding. Specifically, we have obtained written confirmation of significant representations provided on matters that are:

- Directly related to items that are material, either individually or in the aggregate, to the consolidated financial statements;
- Not directly related to items that are material to the consolidated financial statements, but are significant, either individually or in the aggregate, to the engagement; and
- Matters relevant to management judgments or estimates that are material, either individually or in the aggregate, to the consolidated financial statements.



## **APPENDIX B – Areas of Audit Emphasis**

The reasonableness of the estimate of the liability for landfill closure and post-closure maintenance costs:

We reviewed the data and assumptions for the calculation with management in the finance and solid waste departments. We noted that the liability is based on consultants' current data and management's best estimate of future costs. We did not note any errors in the calculation of this liability.

May 14, 2019

The Board of Directors  
Regional District of Nanaimo  
6300 Hammond Bay Road  
Nanaimo, BC V9T 6N2

Dear Members of the Board of Directors:

We have been engaged to audit the consolidated financial statements of Regional District of Nanaimo ("the Regional District") as at December 31, 2018 and for the year then ended.

CAS 260 *Communication With Those Charged With Governance* requires that we communicate with you matters that are significant to our engagement. One such matter is relationships between the Regional District and its related entities or persons in financial reporting oversight roles at the Regional District and MNP LLP and any affiliates ("MNP") that, in our professional judgment, may reasonably be thought to bear on our independence. In determining which relationships to report, the Standard requires us to consider relevant rules and related interpretations prescribed by the appropriate professional accounting body and applicable legislation, covering such matters as:

- (a) Holding a financial interest, either directly or indirectly, in a client;
- (b) Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client or a related entity;
- (c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client or a related entity;
- (d) Economic dependence on a client; and
- (e) Provision of non-assurance services in addition to the audit engagement.

We are aware of the following relationships between the Regional District and MNP that, in our professional judgment, may reasonably be thought to bear on our independence. The following relationships represent matters that have occurred from January 1, 2018 to May 14, 2019.

During the year, MNP was engaged to perform an IT procurement review with respect to computer hardware contracts. To safeguard our independence, the work was performed by MNP's Advisory team based in Victoria, with no involvement by the audit team.

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In addition, final quality control review on the audit was performed by an MNP partner in our Abbotsford office.

This report is intended solely for the use of the Board of Directors, management and others within the Regional District and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

Sincerely,



**MNP LLP**  
**Chartered Professional Accountants**