

SCHOOL DISTRICT NO.93 (CONSEIL SCOLAIRE FRANCOPHONE)

Report to the Comité conseil de gestion of the Board of Education

Audit Findings Report

**For the June 30, 2015
Financial Statements**

To be presented September 15, 2015

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September 10, 2015

Roger Hébert
Chairperson
Board of Education
School District No. 93 (Conseil Scolaire Francophone)
100-13511 Commerce Parkway
Richmond, BC V6V 2J8

Dear Mr. Hébert:

Re: Findings Report for the audit of School District No. 93 (Conseil Scolaire Francophone) for the fiscal year ending June 30, 2015

Our audit of the financial statements of School District No. 93 (Conseil Scolaire Francophone), for the year ended June 30, 2015, is almost complete and we are pleased to meet with the Comité conseil de gestion (“Finance Committee”) to discuss our audit findings report. The report includes an update on the status of our work, as well as discussions on significant accounting, financial reporting and related auditing issues addressed during the course of our audit.

We would like to express our thanks to the management and staff of School District No. 93 (Conseil Scolaire Francophone) who have assisted us in carrying out our work. We look forward to discussing our findings and answering your questions at the Finance Committee meeting on September 15, 2015. Should you have any questions or concerns prior to our meeting, please do not hesitate to contact us in advance.

Yours truly,

Jason Reid, CPA, CA
Executive Director

CM/km
Enclosure

Copy: Members of the Comité conseil de gestion
Sylvain Allison, Secretary Treasurer

1.0 EXECUTIVE SUMMARY

This report is presented in order to assist members of the Finance Committee (the Committee) in carrying out their responsibilities with respect to their review, approval and recommendation to the Board of Education of the financial statements of School District No. 93 (Conseil Scolaire Francophone) for the year ended June 30, 2015. The report includes an update on the status of our work, as well as discussion on significant accounting, financial reporting and related auditing issues addressed during the course of our audit.

Audit status

We have almost completed our audit of the financial statements for the year ended June 30, 2015. Our auditor's report will be issued once we have completed our audit work on the outstanding items noted below. We will provide an update on the status of these items at our upcoming meeting. We anticipate being in a position to sign the auditor's report in the form of the draft appended to this report (Appendix A).

Outstanding item	Status
1. Receipt of certain legal enquiry responses	Ongoing – responses requested by September 11, 2015
2. Subsequent event update procedures	To be performed up to the date of our audit report
3. Completion of certain quality control and Deputy Auditor General review procedures	Outstanding
4. Receipt of signed management representation letter	Due at audit completion
5. Approval of the financial statements by the Finance Committee	Approval pending



Key issues for discussion

To assist with your review, we have highlighted areas for discussion below. We are happy to answer any questions you may have at any time.

Discussion item	Summary	Further reference
Audit matters	<p>As a result of our audit, we are able to inform you of the following:</p> <p>There are no significant accounting policy matters that we believe should be brought to the attention of the Committee.</p> <p>We have concluded that management’s estimates are reasonable in the context of the financial statements taken as a whole.</p> <p>We have not identified any sensitive or significant financial statement disclosures that we believe should be brought to the attention of the Committee.</p> <p>We conducted our audit substantially in accordance with the audit plan presented to the Committee. The results of the risks identified as part of the audit plan are detailed in Section 2.</p>	Section 2
Summary of unadjusted and adjusted items	As a result of our audit, we identified unadjusted and adjusted items, including disclosures for the year ended June 30, 2015.	Section 3 and Appendices C, D, E and F
Fraud	<p>No instances of fraud or suspected fraud were identified as part of our audit procedures.</p> <p>We wish to reconfirm whether the committee is aware of any known, suspected or alleged incidents of fraud.</p>	Section 4
Internal control observations and recommendations	As a result of the audit, we have several observations and recommendations. We have informed management of these matters, and a copy of our letter to management is included in Appendix H.	Section 4 and Appendix H
Management representations	We have requested management provide us with a written representation of their responsibilities in connection with our audit. A copy of the draft letter is included in Appendix G.	Appendix G

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For the Fiscal Year Ending June 30, 2015

Discussion item	Summary	Further reference
Confirmation of independence	We confirm that we are not presently aware of any relationship or non-audit services that would impair our independence for the purpose of expressing an opinion on the financial statements.	Section 4 and Appendix B

2.0 AUDIT MATTERS

Significant Accounting Policies

Significant accounting principles and policies are disclosed in the notes to the financial statements. Within the context of the audit, management has represented to us that there have not been any material changes in the accounting principles and policies during the year. We have not noted any other changes.

Accounting policy matters arising from the audit that are important and relevant to the Committee are as follows:

Section 23.1 of the Budget Transparency and Accountability Act (BTAA)

Under Treasury Board Directive 198/2011 government agencies have been directed to account for deferred contributions in a manner that is not consistent with the requirements of Canadian public sector accounting standards. As a result, contributions are being recorded as deferred revenues where, had Public Sector Accounting Standards (PSAS) had been applied, they would have been recorded as revenues in the statement of operations either in the current year or in previous fiscal years.

As a result, the audit opinion will state that the School District's statements are in compliance with Section 23.1 of the Budget Transparency and Accountability Act rather than with Public Sector Accounting Standards.

The effect of this difference in accounting treatment is disclosed in note 2(a) of the financial statements.

Restriction of School Generated Funds

Schools within the School District generate revenue in excess of related costs incurred or receive funding that is unrestricted in nature. Over time, surpluses have been accumulated that continue to remain unspent by the schools. The School District has historically treated these funds as externally restricted for financial reporting purposes and has recorded these as deferred contributions in the financial statements.

As it is the School District's intention to allow the schools to keep such funds for their operations, the portion unspent that are not subject to external restrictions should be classified as internally restricted funds. Internally restricted funds cannot be recorded as deferred revenues in the financial statements. We have estimated the potential impact to be approximately \$336,000 and have noted it as an adjusted audit difference in Appendix D. As highlighted in the management letter (Appendix H), closer tracking of the nature of contributed funds is required to ensure funds are accounted for appropriately.

We have not noted any other significant unusual transactions for which accounting policies should be disclosed.

There are no other significant accounting policy matters that we believe should be brought to the attention of the Committee.

Significant Accounting Estimates

Management has the responsibility for applying judgment in preparing the accounting estimates and disclosures contained within the financial statements. Accounting estimate matters we believe should be brought to the attention of the committee are as follows:

Amortization of Assets

The District has adopted a policy of not taking any amortization expense in the year that an asset is put into use. Accounting standards require that amortization commence when an asset is put into use. We assessed the difference that results from this estimate. The result this year is not significant but could be significant under some circumstances.

We have concluded that management’s estimates are reasonable in the context of the financial statements taken as a whole. We have not noted any other particularly sensitive accounting estimates we believe should be brought to the attention of the Committee.

Financial Statement Disclosures

Financial statement disclosure matters arising from the audit that are important and relevant to the Board are as follows:

Budget Presentation and Disclosure

In accordance with PSAS, the District is required to present its originally planned budget in the statement of operations for comparison with actual results for the year. Management has decided to present the District’s amended annual budget instead of the original planned budget. Enhanced disclosure for financial statements users was required due to this decision. While additional disclosures present information on the original budget, presentation is not in compliance with PSAS and is, therefore, reported as an audit difference in Appendix F.

Results of Risks Identified in our Audit Plan

We conducted our audit in accordance with the audit plan presented to the committee on March 31, 2015. The results of the risks identified as part of the audit plan are detailed below.

Business risk or audit risk that may result in a risk of material misstatement	Response in Audit Plan	Disposition
Presumed risk of	<ul style="list-style-type: none"> • We will substantively test 	Our audit procedures did not

Business risk or audit risk that may result in a risk of material misstatement	Response in Audit Plan	Disposition
<p>management override of controls – risk of fraud</p> <p>There is a presumption for all entities that there will always be a risk of material misstatement of the financial statements due to fraud or error involving management override of controls. This is a significant audit risk.</p>	<p>on a judgemental basis journal entries made during the year and specifically those made for a period before and after year end.</p> <ul style="list-style-type: none"> • We will review any significant management estimates. • We will evaluate the business rationale for any significant unusual transactions we identify. • We will incorporate an element of unpredictability in our procedures. • We will inquire about fraud risks and occurrences with the committee and management. 	<p>identify any transactions which would suggest management override of controls.</p>
<p>School generated funds</p> <p>The decentralized management of these funds increases the risk over both the accuracy and completeness of figures reported and their proper accounting in the financial statements.</p> <p>Information is not recorded in the School District’s financial system at a transactional level. The funds are reported on a summary basis via a manual addition to the monthly financial statements. Without central monitoring and</p>	<ul style="list-style-type: none"> • We will perform selected reviews on the work performed by management. In addition, we will perform audit work on school accounts on a sample basis. • We will review and assess the appropriateness of management’s conclusions related to the accounting for school generated funds. 	<p>Due to the lack of data collected by the School District, we were unable to perform our procedures as designed and had to modify our approach. In the Management Letter (Appendix H), we recommended management establish a process at each school to classify contributions as restricted or unrestricted.</p>

Business risk or audit risk that may result in a risk of material misstatement	Response in Audit Plan	Disposition
<p>oversight there is an increased risk that information is inaccurate, incomplete and that cash could be misappropriated or misused without detection.</p> <p>Currently cash collected at schools are recorded as deferred revenues when received, with the corresponding revenue recognized when cash is expended. However, if there are restrictions on cash received or services to be provided in exchange for cash received, then recognition of revenue should only occur when restrictions are satisfied or the services are delivered.</p>		
<p>Accounting for capital expenditures</p> <p>There are a number of audit risks associated with accounting for capital assets. These include:</p> <ul style="list-style-type: none"> • judgement involved in determining whether to expense or capitalize certain expenditures, • the method used for amortizing capital assets may differ from actual usage, and thresholds for capitalizing assets may be too high if the volume or pattern of asset purchases 	<ul style="list-style-type: none"> • We will perform detailed substantive testing of capital assets additions to ensure transactions and balances are reasonable. • We will review services and supplies expense for items that are potentially capital assets. • Each year we will monitor the quantum and type of capital activity when planning our audit work. • We will review the actual usage of capital asset additions and ensure that 	<p>Our audit procedures did not identify any significant issues in recording capital expenditures. We did note that the School District's policy of not taking any amortization expense in the year that an asset is put into use is not in line with PSAS; however, is based on use of the amortization tool provided by the Ministry of Education.</p>

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Business risk or audit risk that may result in a risk of material misstatement	Response in Audit Plan	Disposition
change significantly.	the method used for amortizing capital assets reasonably reflects this.	



3.0 SUMMARY OF UNADJUSTED AND ADJUSTED ITEMS

Misstatements and Significant Audit Adjustments

Misstatements represent audit findings for which we do not agree with the amount, classification, presentation or disclosure of items in the financial statements. A misstatement may arise from an error or fraud and other irregularities. An error refers to an unintentional misstatement in financial statements, including an omission of amount or error. Fraud and other irregularities refer to an intentional misstatement in financial statements, including an omission of amount or disclosure, or to a misstatement arising from theft of the entity's assets.

In conducting our procedures, we may identify misstatements that require adjustments to the recorded amounts. These audit adjustments are discussed with management who determine if an adjustment should be recorded.

We report that there were non-trivial adjustments to the financial statements for the year ended June 30, 2015. We have summarized all adjusted differences found during the audit and their impact on the financial statements in Appendix D. None of the differences identified were as a result of fraud or other irregularities.

We report that there are uncorrected non-trivial misstatements of the financial statements for the year ended June 30, 2015. In accordance with professional standards, we are required to request those charged with governance to correct these misstatements. We have summarized these uncorrected misstatements in Appendix C. None of the differences identified were as a result of fraud or other irregularities.

4.0 OTHER MATTERS

Illegal and Fraudulent Acts

Our enquiries of management and our testing of financial records did not reveal any illegal or possible illegal acts, nor did we find any fraud or suspected fraud. However, improper conduct is usually carefully concealed and, consequently, the probability is not high that our regular audit work, however diligently performed, will bring it to light. Management has also provided us with a written representation that they are not aware of any illegal or possible illegal acts or fraud or suspected fraud (Appendix G).

Related-Party Transactions

Testing of financial records and discussions with management did not reveal any significant related-party transactions that were not in the normal course of operations.

Independence

As external auditors of School District No. 93 (Conseil Scolaire Francophone), we are required to be independent in accordance with Canadian professional requirements. These standards require that we disclose to the Committee all relationships that, in our professional judgment, may reasonably be thought to bear on independence. As of September 10, 2015, we are not aware of any relationships between School District No. 93 (Conseil Scolaire Francophone) and us that, in our professional judgment, may reasonably be thought to bear on our independence. See Appendix B.

Continuing as Your Auditors

Each year, the Auditor General must provide the Select Standing Committee on Public Accounts with a plan for the appointment of auditors for government organizations and trust funds for the next three years.

The most recent plan, tabled in September 2014, indicated that the Auditor General will be the auditor of School District No. 93 (Conseil Scolaire Francophone) for the duration of the plan which includes fiscal years up to and including June 30, 2018.

<http://www.bcauditor.com/about-us/financial-statement-audit-coverage-plansh>

Significant Deficiencies in Internal Control

The responsibility for the design and maintenance of an appropriate system of internal control to provide reasonable assurance that the accounting systems provide timely, accurate and reliable financial information and to safeguard School District No. 93 (Conseil Scolaire Francophone)'s assets is part of management's overall responsibility for the day-to-day operations of School District No. 93 (Conseil Scolaire Francophone).

As auditors, we obtain a sufficient understanding of internal controls to plan the audit. The understanding includes knowledge about the design of policies and procedures and whether they have been implemented, but does not necessarily extend to evaluating the operating effectiveness of these policies and procedures. We only evaluate, and test, those internal controls on which we plan to rely during our audit.

Our audit is not designed, nor should it be expected, to allow us to provide an opinion on the systems of internal controls.

However, in the course of our examination, certain opportunities for improvement in internal controls came to our attention. Our Management Letter, including management's response is included in Appendix H.

Our commitment to audit quality

The mandate of the Auditor General of British Columbia is to provide independent assurance and advice to legislators on government accountability information, governance, operational performance of government and its agencies, and compliance with legislative authorities. Our internal quality assurance system is designed to help ensure that our staff are managing risks relating to our independence, objectivity, credibility, relevance, and capacity.

Our system for quality assurance consists of policies designed to achieve our objectives in relation to quality control, and the procedures necessary to implement and monitor compliance with those policies. A system of quality control is established and maintained, involving our structure, its leadership, the assigned roles and responsibilities, manuals, administrative and personnel policies, and most importantly, our culture.

We believe our values help us achieve both audit quality and audit efficiency. After the audit, we will ask for your feedback on how the audit went and what improvements we can make to our quality assurance processes.

APPENDIX A: DRAFT INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

*To the Members of the Board of Education of
School District No.93 (Conseil Scolaire Francophone), and*

To the Minister of Education, Province of British Columbia

I have audited the accompanying financial statements of School District No.93 (Conseil Scolaire Francophone), which comprise the statement of financial position as at June 30, 2015, and the statement of operations, changes in net financial assets (debt), and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the accounting requirements of section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements of School District No.93 (Conseil Scolaire Francophone) for the year ended June 30, 2015, are prepared, in all material respects, in accordance with the accounting requirements of section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia.

Emphasis of Matter

Without modifying my opinion, I draw attention to Note 2a to the financial statements which discloses that the accounting requirements of section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia are in accordance with Canadian public sector accounting standards except in regard to the accounting treatment of government transfers. Note 2a to the financial statements discloses the impact of these differences.

Other Matters

The comparative figures as at June 30, 2014, and for the year then ended, were reported on by a firm of Chartered Accountants who expressed an opinion without reservation in their report dated September 22, 2014.

Victoria, British Columbia
[date]

Russ Jones, FCPA, FCA
Deputy Auditor General





APPENDIX B: LETTER OF INDEPENDENCE

September 15, 2015

Roger Hébert
Chairperson
Board of Education
School District No. 93 (Conseil Scolaire Francophone)
100-13511 Commerce Parkway
Richmond, BC V6V 2J8

Dear Mr. Hébert:

Re: Letter of Independence

We have been engaged to audit the financial statements of School District No. 93 (Conseil Scolaire Francophone) for the year ending June 30, 2015.

The intent of this letter is to communicate all relationships between School District No. 93 (Conseil Scolaire Francophone) and the Office of the Auditor General of British Columbia (the Office) that, in our professional judgment, may reasonably be thought to bear on our independence. In addition, we communicate to you the total fees charged to the entity for non-audit services during the last year.

In determining which relationships to report, we considered the relevant rules and related interpretations prescribed by the Chartered Professional Accountants of British Columbia 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;
- (c) personal or business relationships of immediate family or close relatives, either directly or indirectly, with a client;
- (d) economic dependence on a client; and
- (e) provision of services in addition to the audit engagement.

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

In order to establish a framework for the comments that follow, we have summarized the fees paid by School District No. 93 (Conseil Scolaire Francophone) to the Office for significant professional services for the period July 1, 2014 to September 10, 2015.

Annual audit services
None

We are not aware of any relationships between School District No. 93 (Conseil Scolaire Francophone) and us that, in our professional judgment, may reasonably be thought to bear on our independence, which have occurred during this period.

Canadian auditing standards require that we confirm our independence to the Finance Committee in the context of the Rules of Professional Conduct of the Chartered Professional Accountants of British Columbia. Accordingly, we hereby confirm that we are independent with respect to School District No. 93 (Conseil Scolaire Francophone) within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of British Columbia as of September 10, 2015.

This report is intended solely for the use of the Finance Committee, management and others within School District No. 93 (Conseil Scolaire Francophone) 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 the audit committee may have regarding our independence.

Yours truly,



Jason Reid, CPA, CA
Executive Director

CM/km
Enclosure

APPENDIX C: SUMMARY OF AUDIT DIFFERENCES - UNADJUSTED

Description	Overstatement (understatement) of:		
	Assets \$	Liabilities and Accumulated Surplus \$	Annual Surplus \$
Estimated impact of the amortization difference between the School District's amortization policy and PSAS requirements. Resulted in:			
Understatement of Tangible Capital Assets	(249,101)		
Understatement of Accumulated surplus		(286,394)	
Understatement of Amortization Expense			37,293
Total	(249,101)	(286,394)	37,293



APPENDIX D: SUMMARY OF AUDIT DIFFERENCES - ADJUSTED

Description	Overstatement (understatement) of:		
	Assets \$	Liabilities and Accumulated Surplus \$	Annual Surplus \$
Verified unrestricted portion of deferred contributions for School Generated Funds ineligible for deferral. Resulted in:			
Overstatement of Deferred Revenue		335,832	
Understatement of Revenues: Other Revenue			(335,832)
Federal Grants revenue recorded as Provincial Grants revenue. Resulted in:			
Understatement of Revenues: Federal Grants			(185,881)
Overstatement of Revenues: Provincial Grants – Ministry of Education			185,881
Total		335,832	(335,832)



APPENDIX E: SUMMARY OF AUDIT DIFFERENCES - UNCORRECTED MISSTATEMENTS FROM PRIOR PERIODS

Description	Overstatement (understatement) of:		
	Assets \$	Liabilities and Accumulated Surplus \$	Annual Surplus \$
None			



APPENDIX F: SUMMARY OF AUDIT DIFFERENCES - DISCLOSURES

SUMMARY OF IDENTIFIED DISCLOSURE ERRORS - UNADJUSTED

The School District is presenting the amended annual budget rather than the original budget as required by PS 1100.59.



APPENDIX G: MANAGEMENT REPRESENTATION LETTER



September 15, 2015

Russ Jones, FCPA, FCA
Deputy Auditor General of British Columbia
623 Fort Street
Victoria, BC V8W 1G1

Dear Mr. Jones:

Re: Management Representation Letter

We are providing this letter in connection with your audit of the financial statements of School District No. 93 (Conseil scolaire Francophone) (the School District) for the year then ended June 30, 2015, for the purpose of expressing an opinion as to whether the financial statements present in all material respects, the financial position, results of operations, changes in net financial assets (debt), and cash flows of the School District in accordance with section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia.

We acknowledge that your audit is planned and conducted in accordance with Canadian generally accepted auditing standards so as to enable you to express a professional opinion on the financial statements. We understand that while your work includes an examination of the accounting system, internal controls, and related data to the extent you considered necessary in the circumstances, it is not designed to identify, nor can it necessarily be expected to disclose, fraud, errors, or other irregularities.

Management's responsibilities

We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated March 6, 2015. In particular, we confirm to you the following:

- We are responsible for the preparation of the financial statements in accordance with section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia.

- We are responsible for designing, implementing, and maintaining an effective system of internal control over financial reporting, to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In this regard, we are responsible for establishing policies and procedures that pertain to the maintenance of accounting systems and records, the authorization of receipts and disbursements, and the safeguarding of assets, and for reporting financial information in accordance with section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia.
- We are responsible for complying with legislative and other authorities that govern the School District.
- We have provided you with all relevant information and access, as agreed in the terms of the audit engagement.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.

We confirm the following representations:

Preparation of financial statements

The financial statements include all disclosures necessary for presentation in accordance with the accounting requirements of section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia. In addition, the financial statements have been prepared on a basis consistent with that of the preceding year.

We have appropriately reconciled our books and records (for example, general ledger accounts) underlying the financial statements to their related supporting information (for example, subledger or third party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the financial statements. There were no material unreconciled differences or material items in the general ledger suspense accounts that should have been adjusted or reclassified to another account balance. There were no material items in the general ledger suspense accounts written off to a statement of financial position account that should have been written off to an operations account, nor were there such items written off to an operations account that should have been written off to a statement of financial position account.

Accounting policies

We confirm that we have reviewed the School District's accounting policies and, with regard to the possible alternative policies, our selection and application of accounting policies and estimation techniques used for the preparation and presentation of the financial statements are appropriate in the School District's particular circumstances to present in all material respects its financial position, operations, changes in net financial assets (debt) and cash flow in accordance

with section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia.

Internal controls over financial reporting

We have designed disclosure controls and procedures to ensure that material information related to the School District is made known to us by others.

We have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with the accounting requirements of section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia.

We have not identified any deficiency in the design and operation of internal control over financial reporting as at June 30, 2015.

Disclosure of information

We have provided you with access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation, and other matters, including:

- contracts and related data;
- information regarding significant transactions and arrangements that are outside the normal course of business;
- minutes of the meetings of the board of education, finance committee, and management;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

Completeness of transactions

All contractual arrangements entered into by the School District with third parties have been properly reflected in the accounting records and/or have been disclosed to you where material (or potentially material) to the financial statements. We have complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Fraud

We have disclosed to you:

- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all information of which we are aware that is related to fraud, or suspected fraud, affecting the School District and involving management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements; and
- all information related to any allegations of fraud, or suspected fraud, that could affect the School District's financial statements, and that was communicated by employees, former employees, analysts, regulators, or others.

Compliance with laws and regulations

We have disclosed to you all aspects of laws, regulations, and contractual agreements that may affect the financial statements, including actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

We are not aware of any illegal or possibly illegal acts committed by the School District's directors, officers, or employees acting on the School District's behalf.

All transactions of the School District have been within its statutory powers and enabling legislation.

Accounting estimates and fair value measurements

We are responsible for all significant estimates and judgments affecting the financial statements. These include fair value measurements and disclosures. Significant estimates and judgments and their underlying assumptions, methods, procedures, and the source and reliability of supporting data are reasonable, based on applicable requirements of Canadian public sector accounting standards and appropriately disclosed in the financial statements. The procedures and methods used in developing assumptions, estimates, and judgments are appropriate and have been consistently applied in the periods presented.

For recorded or disclosed amounts in the financial statements that incorporate fair value measurements, we confirm the following:

- The measurement methods are appropriate and consistently applied.
- The significant assumptions used in determining fair value measurements represent our best estimates, are reasonable, and have been consistently applied.
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.
- The significant assumptions used in determining fair value measurements are consistent with our planned courses of action.

- We have no plans or intentions that have not been disclosed to you that may materially affect the recorded or disclosed fair values of assets or liabilities.

Significant estimates and measurement uncertainties known to management that are required to be disclosed in accordance with The CPA Canada Public Sector Accounting Handbook, Section PS 2130, Measurement uncertainty, have been appropriately disclosed.

Related parties

We confirm that we have disclosed to you the identity of the School District's related parties as defined by Canada Public Sector Accounting Handbook, Section PS 2200.

We confirm that we have disclosed to you all transactions between the School District and related parties including:

- transactions in the normal course of operations;
- transactions outside the normal course of operations;
- non-monetary transactions;
- transactions for nil consideration; and
- guarantees in respect of related parties.

The identity and relationship of, and balances and transactions with, related parties have been properly recorded and adequately disclosed in the financial statements, as required by Canadian public sector accounting standards.

We are not aware of any conflicts of interest involving the School District arising from any of the related party transactions as disclosed to you.

Going concern

We are not aware of any events or circumstances that may cast doubt on the School District's ability to continue as a going concern and we confirm that we consider the going concern assumption appropriate in the preparation of the financial statements. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the School District's financial statements (for example, to dispose of the entity or to cease operations).

Assets and liabilities

We have recorded or disclosed, as appropriate, all assets, in accordance with Canadian public sector accounting standards.

We confirm that the School District has satisfactory title or control over all aforementioned assets. All liens or encumbrances on the School District's assets and assets pledged as collateral, to the extent material, have been disclosed in the financial statements.

Trade receivables and loan receivables recorded in the financial statements represent bona fide claims against debtors for sales or other charges arising on or before the statement of financial position date and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts that are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.

We have recorded or disclosed, as appropriate, all liabilities, in accordance with Canadian public sector accounting standards, and regulations as issued by the Province of British Columbia Treasury Board in accordance with section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia. All liabilities and contingencies, including those associated with guarantees, whether written or oral, under which the School District is contingently liable in accordance with the CPA Canada Public Sector Accounting Handbook, Section PS 3300, Contingent liabilities, have been disclosed to you and are appropriately reflected in the financial statements.

Environmental matters

We confirm that we have disclosed to you all liabilities and contingencies arising from environmental matters.

Liabilities or contingencies related to environmental matters have been recognized, measured, and disclosed, as appropriate, in the financial statements.

We have considered the effect of environmental matters, and the carrying value of the relevant assets is recognized, measured, and disclosed, as appropriate, in the financial statements.

All commitments related to environmental matters have been measured and disclosed, as appropriate, in the financial statements.

Budgetary data

We have included budgetary data in our financial statements, which is relevant to the users of financial statements and consistent with that originally planned and approved by the Board of Education on February 14, 2015. Planned results and amounts were presented for the same scope of activities and on a basis consistent with that used for actual results.

Taxes

We are responsible to ensure the School District is in compliance with laws and regulations associated with reporting and remittance of taxes in all jurisdictions in which it operates.

We confirm that we have disclosed to you all jurisdictions in which the School District operates and the respective reporting requirements under any tax regime.

Minutes

All matters requiring disclosure to or approval of the Board of Education have been brought before them at appropriate meetings and are reflected in the minutes.

General

There are no proposals, arrangements, or actions completed, in process, or contemplated that would result in the suspension or termination of any material part of the School District's operations.

Information relative to any matters handled on behalf of the School District by any legal counsel, including all correspondence and other files, has been made available to you.

Litigation and claims

All known actual or possible litigation and claims, which existed at the statement of financial position date or exist now, have been disclosed to you and have been accounted for and disclosed in accordance with Canadian public sector accounting standards, whether or not they have been discussed with legal counsel.

Misstatements detected during the audit

Certain representations in this letter are described as being limited to those matters that are material. Solely for the purpose of this letter, the term "material" means any items referred to in this letter, individually or in the aggregate that are more than \$1,626,000. Items are also considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We confirm that the financial statements are free of material misstatements, including omissions.

The effects of the uncorrected misstatements in the financial statements, as summarized in the accompanying schedule in Appendix A, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

The adjusted misstatements identified during your audit, as summarized in the accompanying schedule in Appendix B, have been approved by us and adjusted in the consolidated financial statements.

Events after the statement of financial position date

We have identified all events that occurred between the date of the statement of financial position and the date of this letter that may require adjustment of, or disclosure in, the financial statements, and we have made such adjustment or disclosure.

Use of experts

We assume responsibility for the findings of experts in evaluating the employee future benefits and have adequately considered the qualifications of the experts in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the experts.

Restricted assets and revenues

All assets and revenues subject to restrictions are disclosed in the financial statements.

All externally restricted inflows have been recognized as revenue in the year in which the resources were used for the purposes specified. All externally restricted inflows received for which the criterion has not been met have been reported as liabilities and will not be recognized as revenue until such time as the resources are used for the purposes specified.

Tangible capital assets

All charges to tangible capital asset accounts represented the actual cost of additions to tangible capital assets or the fair value at the date of contribution.

No significant tangible capital asset additions were charged to repairs and maintenance or other expense accounts.

Tangible capital assets controlled by the School District are being depreciated on a systematic basis over their estimated useful lives, and the provision for depreciation was calculated on a basis consistent with that of the previous financial statement period.

All lease agreements covering assets leased by or from the School District have been disclosed to you and classified as leased tangible capital assets or operating leases.

Leased tangible capital assets are being amortized on a systematic basis over the period of expected use.

There have been no events, conditions, or changes in circumstances that indicate that a tangible capital asset no longer contributes to the School District's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value. We believe that the carrying amount of the School District's long-lived

tangible capital assets is fully recoverable in accordance with CPA Canada Public Sector Accounting Handbook, Section PS 3150, Tangible Capital Assets.

Intangible assets

Intangibles assets (except computer software), including those that have been purchased, developed, constructed, or inherited in right of the Crown, are not recognized as assets in the financial statements.

Deferred revenue

All material amounts of deferred revenue meet the definition of a liability or regulations as issued by the Province of British Columbia Treasury Board in accordance with section 23.1 of the *Budget Transparency and Accountability Act of the Province of British Columbia* and were appropriately recorded in the books and records.

Retirement benefits, post-employment benefits, compensated absences, and termination benefits

All arrangements to provide retirement benefits, post-employment benefits, compensated absences and termination benefits have been identified to you and have been included in the actuarial valuation as required.

Yours truly,

School District No. 93 (Conseil Scolaire Francophone)

Sylvain Alison, Secrétaire trésorier

Simon Couture, Directeur des finances

APPENDIX A: SUMMARY OF AUDIT DIFFERENCES - UNADJUSTED

Description	Overstatement (understatement) of:		
	Assets \$	Liabilities and Accumulated Surplus \$	Annual Surplus \$
Estimated impact of the amortization difference between the School District's amortization policy and PSAS requirements. Resulted in:			
Understatement of Tangible Capital Assets	(249,101)		
Understatement of Accumulated surplus		(286,394)	
Understatement of Amortization Expense			37,293
Total	(249,101)	(286,394)	37,293

APPENDIX B: SUMMARY OF AUDIT DIFFERENCES - ADJUSTED

Description	Overstatement (understatement) of:		
	Assets \$	Liabilities and Accumulated Surplus \$	Annual Surplus \$
Verified unrestricted portion of deferred contributions for School Generated Funds ineligible for deferral. Resulted in:			
Overstatement of Deferred Revenue		335,832	
Understatement of Revenues: Other Revenue			(335,832)
Federal Grants revenue recorded as Provincial Grants revenue. Resulted in:			
Understatement of Revenues: Federal Grants			(185,881)
Overstatement of Revenues: Provincial Grants – Ministry of Education			185,881
Total		335,832	(335,832)



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APPENDIX H: MANAGEMENT LETTER

September 10, 2015

VIA E-MAIL

Sylvain Allison
Secrétaire-trésorier
School District No. 93 (Conseil Scolaire Francophone)
100-13511 Commerce Parkway
Richmond, BC V6V 2J8

Dear Mr. Allison,

Re: Financial Audit Findings and Recommendations – School District No. 93 (Conseil Scolaire Francophone)

Our Office has completed the audit of the financial statements of School District No. 93 (Conseil Scolaire Francophone) (the District) for the year ended June 30, 2015. The audit was carried out in accordance with Canadian generally accepted auditing standards. It was not a study designed specifically to determine if internal control is adequate for management's purposes or to identify and disclose defalcations or other irregularities.

As a result of the audit, we have a number of observations and recommendations. Other matters which arose during the audit were brought to the attention of Simon Couture, Directeur des finances, and have been satisfactorily resolved or are of a relatively insignificant nature so are not included within.

Included for your information, is a list of monetary errors.

We wish to express our appreciation for the excellent cooperation we received from your staff during the course of the audit.

Yours truly,

Jason Reid, CPA, CA
Executive Director

MC/km
Enclosure

Page 2
September 10, 2015
Sylvain Allison

Copy: Simon Couture, CPA, CGA, Directeur des finances



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This report has been prepared solely for the use of management and should not be distributed to others outside the entity without our prior written consent. We disclaim any liability to any third party who may rely upon this report.

1. Current Year Findings

a) Deficiencies in SRB Education Solutions application user account management password change control compliance

SRB Education Solutions (SRB) is the information technology system that the District uses for financial management. Assignment of user accounts to employees is position-based, meaning that SRB user accounts exist for each position. These accounts allow users system access only to the functions that they require to perform their duties. The same user account is recycled; for example, a new payroll manager would take over the old account from the previous employee holding the same position. Underlying procedures require the account password to be changed when an employee starts, change positions and leaves.

During our examination, we identified the following exceptions:

1. Account password is not changed when a new employee is hired. For new user account setup, the new employee takes over the account hold by the previous employee and the new user is expected to change the password for the account.
2. Account password is not changed upon position transfer. An accounting clerk was transferred to school secretary for a six month temporary term. For her new position, she no longer requires SRB access and as a result her SRB account password should be changed. During the audit, we verified with SRB, that the password for the account was not changed. The last time the password was changed for this account was in 2009.
3. Account password is not changed upon termination. During the audit, we sampled a purchasing clerk who retired on August 27, 2014. We verified with SRB that her account password was not changed. Although her password was not changed, we have verified with SRB that the last time she logged onto SRB was before her retirement.

Not changing the password for recycled accounts creates an opportunity for unauthorized access.

Recommendation

We recommend the District enforce account password change controls for the SRB application account upon hiring, position transfer and at position termination.

Management's Response

Yes, we will do. Every username can change their password. Therefore, we will change the password when employee leave/terminate etc.

b) Lack of segregation of duties within the Secrétaire-tresorier role within SRB Education Solutions

It is important to separate responsibility for various functions in a business process among several individuals to mitigate the risk of unnoticed errors and fraudulent activities. This concept is known as segregation of duties.

During the course of our audit work, we noted that within SRB Education Solutions (SRB) the Secrétaire-tresorier role currently has been assigned several incompatible functions, which include the following:

- Preparing and posting journal entries;
- Setting up and modifying employee data; and
- Setting up and modifying vendor data, including the ability to enter invoices and process payments.

Although inappropriate activities were not identified during our audit, our audit procedures are not designed to detect such activities. The lack of segregation of duties could result in unnoticed errors or as well as the opportunity to commit and conceal fraudulent activities.

Recommendation

We recommend the District review the functions assigned to the role of Secrétaire-tresorier within SRB to ensure that incompatible functions are appropriately segregated.

Management's Response

Adjustments done. The School Board was aware of that situation. We noted that an e-mail has been sent to SRB in 2009 to solve this situation. For an unknown reason SRB have not done the adjustments.

c) Payroll function internal controls

It is critical to ensure the payroll system has strong internal controls to prevent fraud. We identified several payroll related control issues.

1. SRB populates payroll rates (e.g. salaries, wage rates, deductions, withholding rates etc.) from the payroll master file based on the type of employee entered. Typically, in electronic payroll systems, the ability to modify rates will be restricted and can only be performed with supervisor approval.

We observed that currently all rates can be modified and changed by certain payroll staff without approval. It is noted that the Electronic Bank Transfer Report and GL Distribution

Report are reviewed and signed by the Directeur des finances, prior to posting payroll. Quarterly reviews are also performed on the operating budget, which would identify significant variances; however, this rate modification ability should still be restricted. While higher level controls exist to mitigate this risk, they may not be sufficient to detect error and fraud.

The implication of allowing payroll staff to modify rates without approval is that accidental keying errors could be made or fraudulent adjustments could be intentionally made that, while not immediately material to the District, are a waste of District resources.

2. Time sheet approval is a key control to ensure that all time paid is actually worked. In the District, principals are responsible for ensuring the occurrence, completeness and accuracy of time worked and approving timesheets prior to submission to the Payroll Department. There is a timesheet approval function within the SRB system to facilitate the process.

We observed that the Payroll Department does not have evidence that timesheets are consistently approved at individual schools and processes pay anyway. The timesheet approval function is not used consistently in SRB and the Payroll Department in Richmond does not receive copies of timesheets from all the schools showing the principals' signatures after the school secretaries enter timesheets into the SRB system.

The lack of an appropriate time sheet approval process could result in payment of unauthorized expenditures.

Recommendation

We recommend the District make the following control improvements in payroll:

- *Implement authorization controls such that payroll staff does not have the ability to make unapproved changes to pay rates. Compensating IT and/or review controls could be put in place to mitigate this risk.*
- *Ensure principals review and approve all timesheets and that the Payroll Department verify on a sample basis that time sheets have been appropriately approved prior to payment.*

Management's Response

Rates are given by HR or any other organizations (MSP, Morneau, Great West etc.) Payroll supervisor will be advised by the rate changes and verify the accuracy.

Schools principal must approve in SRB all the entries for payroll. It is not done at 100% (Maybe 65% to 70%). The School Board must continue enforce that directive.

d) Inappropriate deferral of unrestricted school-generated funds

School generated funds are raised at the school level for various purposes including; for example, field trips, graduation events and school supplies. We observed during the course of our audit work that all school generated funds raised during the year are being deferred on the statement of financial position. Accounting standards require that deferred revenue be recorded only for:

- Contributions restricted for a specific purpose that have not yet been spent on that purpose (i.e. school supplies).
- Fees for which the related services have not yet been provided (i.e. a field trip that has not occurred).

All other receipts should be recorded as revenue in the year received.

Our review of the work of the District indicates that deferred revenue, expense, and revenue is recognized based on the bank statements and not on whether the terms and conditions of the above has been met.

As it is not clear the purpose for which the surplus funds are held, there is a risk they are not being accounted for correctly.

Recommendation

We recommend the District should:

- *Establish a process for determining which school generated funds contributions are restricted and eligible for deferral and which need to be recognized as revenue and appear in internally restricted fund balance.*
- *Ensure surplus funds are used in a manner that is transparent and consistently applied.*

Management's Response

We took a sample of 3 schools and made the proper adjustments. \$335,832 are now in the restricted surplus of the operating surplus instead of being in the deferred revenue of the special purpose fund.

A new employee has been hired to share 50/50 all the rental income from the schools. Right now, there is only 4 or 5 that return money at the Board office. Therefore, revenue should increase and deferred revenue should decrease.

e) Incomplete identification of related parties

Identification of all related parties is important for complete and accurate financial statement disclosure. The recently approved PS 2200 related party disclosures provides a definition. A related party relationship exists when one party has the ability to exercise control or shared control over the

other. Two or more parties are related when they are subject to common control or shared control. Related parties also include key management personal and close family members.

During our audit work, we observed that the District currently does not collect information from board members and key management personnel on whether they or their close family members control any other companies. “Close family members” are defined to normally include an individual’s spouse and those dependent on either the individual or the individual’s spouse. Although members on the Board of Education are required to sign the “Serment D’entrée en fonctions” (Oath of Office Entrance) form upon onboarding, the oath does not require members to disclose names of entities they own or control.

Without collecting this information, the District cannot completely identify all related parties to determine whether disclosure of transactions is required.

Recommendation

We recommend the District implement a standard annual declaration process to collect information on the business interests of board members, key management personnel and their close family members.

Management’s Response

CSF provides you document filled by Board members regarding their relations with the School Board. We will discuss with the Board the possibility to extend that to key management personnel on an annual basis.

f) Lack of purchasing conflict of interest policy

Conflict of interest in purchasing is a risk that the District should be aware of. A detailed conflict of interest policy informing employees of District expectations would be a very useful tool. Employees conducting business on behalf of the District should be doing so always in an objective and ethical manner. Examples of areas of issue typically addressed in conflict of interest policies include:

- Suppliers may provide gifts or other inducements to attempt to influence employee judgment. Employees should know the expectations for how to handle these situations and should disclose any offers to their supervisor.
- If suppliers offer promotional benefits from doing business, those should accrue to the District and not the purchasing employee.
- Employees may wish to reward friends or family companies with district business. These situations would be potential conflicts of interest that should be disclosed to the District prior to purchase for independent review.

Recently, the District reorganized and the purchasing role is vacant and there is no plan to fill it. Currently, the maintenance department contacts vendors to determine which are most economical

and then the Payroll Supervisor & Financial Analyst adds the new vendors to the system. There is no conflict of interest policy and employees involved in procurement are not required to disclose their personal business interests and those of their immediate family members. Note that through the course of our work, we did not observe any potential conflicts of interest; however, if there were any, they would likely be concealed by employees and our work was not planned in order to detect such things.

Without a conflict of interest policy, employees may be inappropriately influenced in selecting suppliers and this may result in the District not receiving the best value for money on purchases.

Recommendation

We recommend the District implement a procurement conflict of interest policy.

Management's Response

We will discuss with the Board the possibility to have a detailed conflict of interests policy informing employees of District's expectations regarding purchasing conflict.

g) Review of purchases using purchasing cards

Purchasing card expenditures are significant for the District at approximately \$850,000 annually. Purchasing cards are paid automatically by the District each month. Statements and receipts are entered into a BMO online system with GL codes by the schools' secretaries. All purchasing card statements and documentation are submitted to the Payables Department for verification. The BMO online system automatically calculates a GST amount for all purchases. If, during the coding, GST exempt purchases are not identified a GST rebate will be claimed.

During our walkthrough of the purchasing process, we noted that there is no documented formal review of purchasing card expenditures. The implications of this are:

- reviews by payables staff may not be consistent from month to month.
- staff may not know what types of potential errors they should be looking for in the review process.

Additionally, we did not find evidence of review to ensure appropriate GST coding to prevent over claiming the rebate. We observed several GST calculation errors in the course of our audit work due to lack of identifying GST exempt purchases. While the extrapolation of these errors this year resulted in a trivial impact, they could lead to required repayments if the District is subjected to a GST audit.

Recommendation

We recommend that a documented formal review and approval process be implemented for purchasing card expenditures, including procedures to ensure any GST rebate claimed is appropriate.

Management's Response

CSF has been audited by CRA for GST/HST from 2007 to 2012. No claim has been made by CRA on any of these years. It is a situation also shared by other SRB /BMO purchasing card users in the school districts community. We will look at these transactions and see what we can do.

Purchasing cards are a tool that schools use for their school budget. Therefore, the same rules applied.

Also, Schools principals and managers approved these invoices.

2. Summary of Identified Misstatements**a) Adjusted**

Description	Overstatement (understatement) of:		
	Assets \$	Liabilities and Accumulated Surplus \$	Annual Surplus \$
Verified unrestricted portion of deferred contributions for School Generated Funds ineligible for deferral. Resulted in:			
Overstatement of Deferred Revenue		335,832	
Understatement of Revenues: Other Revenue			(335,832)
Federal Grants revenue recorded as Provincial Grants revenue. Resulted in:			
Understatement of Revenues: Federal Grants			(185,881)
Overstatement of Revenues: Provincial Grants – Ministry of Education			185,881
Total		335,832	(335,832)



b) Unadjusted

Description	Overstatement (understatement) of:		
	Assets \$	Liabilities and Accumulated Surplus \$	Annual Surplus \$
Estimated impact of the amortization difference between the School District's amortization policy and PSAS requirements. Resulted in:			
Understatement of Tangible Capital Assets	(249,101)		
Understatement of Accumulated surplus		(286,394)	
Understatement of Amortization Expense			37,293
Total	(249,101)	(286,394)	37,293

