

From: "Johnston, Sadhu" <Sadhu.Johnston@vancouver.ca>
To: "Direct to Mayor and Council - DL" <CCDTMACDL@vancouver.ca>
CC: "City Manager's Correspondence Group - DL" <CMCG@vancouver.ca>
"Impey, Patrice" <Patrice.Impey@vancouver.ca>
"Pickard, Gail" <Gail.Pickard@vancouver.ca>
Date: 3/5/2018 3:29:39 PM
Subject: Annual Audit Planning Letter
Attachments: 17 COV APL Final.pdf

Dear Mayor and Council,

Please see attached the 2017 year end Audit Planning letter from our auditor KPMG. The letter relates to the planned scope and timing of the audit for the year ended December 31, 2017. The letter includes the following key considerations:

- Considerations in Developing our Audit Plan (for information)
- Scope and Timing of the Audit (for information)
- Annual Inquiries of Council (for consideration and potential response)
- Current Developments in Accounting Standards (for information)
- Extracts from Audit Agreement - Management's and Auditors' Responsibilities (for information)

Please note that of the 5 items covered in the planning memo, only the 3rd item "Annual Inquiries of Council" is for your consideration and potential response, the other items are for information only.

Best,
Sadhu

Sadhu Aufochs Johnston | City Manager
City of Vancouver | 453 W 12th Avenue
Vancouver | BC V5Y 1V4
604.873.7627 | Sadhu.johnston@vancouver.ca
Twitter: sadhuajohnston



CONFIDENTIALITY NOTICE: This message and any accompanying documents contain confidential information intended for a specific individual and purpose. This message is private and protected by law. If you are not the intended recipient, you are hereby notified that any disclosure, copying or distribution, or the taking of any action based on the contents of this information, is strictly prohibited.



KPMG Enterprise™
Metrotower I
4710 Kingsway, Suite 2400
Burnaby, BC V5H 4M2
Canada
Telephone (604) 527-3600
Fax (604) 527-3636

AUDIT PLANNING LETTER

PRIVATE & CONFIDENTIAL

The Mayor and Council
City of Vancouver
453 West 12th Avenue
Vancouver, BC V5Y 1V4

February 20, 2018

To: The Mayor and Council of the City of Vancouver (together, "Council"):

We are pleased to provide, as a requirement of our audit planning and reporting, the enclosed information relating to the planned scope and timing of the audit of the consolidated financial statements of the City of Vancouver (the "City") for the year ended December 31, 2017. This letter includes the following key considerations:

- Considerations in Developing our Audit Plan (for information)
- Scope and Timing of the Audit (for information)
- Annual Inquiries of Council (for consideration and potential response)
- Current Developments in Accounting Standards (for information)
- Extracts from Audit Agreement - Management's and Auditors' Responsibilities (for information)

We would be pleased to receive any feedback you may have with respect to the planned scope or timing, and are available to discuss the letter and answer questions that you may have. If you have any specific areas of concerns or other issues you would like addressed in the audit, please contact us. We appreciate the opportunity to serve you and look forward to our continuing relationship. This letter is for Council's information with respect to the planning of the City's annual audit. This letter should not be used for any other purpose or by anyone other than Council. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

Brian Szabo, CPA, CA
*Engagement Partner**
(604) 527-3747



*City of Vancouver
February 20, 2018*

*Responsible for the engagement and its performance, and for the report that is issued on behalf of KPMG LLP, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

cc: Mr. Sadhu Johnston, City Manager
Ms. Patrice Impey, General Manager/CFO, Finance, Risk and Supply Chain
Management



CONSIDERATIONS IN DEVELOPING OUR AUDIT PLAN

We have set out a below a summary of changes in operations and significant matters in the current year that were taken into consideration in planning the audit of the City's consolidated financial statements for the current year:

- The following senior management appointments were made during the year.
 - Melanie Kerr, Director Financial Services
- The first Vancouver Community Land Trust affordable housing project was opened utilizing one of three City land sites worth \$25 million leased to the Trust in 2015 for a nominal amount.
- Management continues to develop the processes and parameters for applying the tax to vacant homes. We will work with management to determine what, if any, affect this has on financial reporting for fiscal 2017.

There are no significant changes in the accounting standards in the current year that will impact the City's consolidated financial statements.

There are no significant changes in the auditing and other professional standards in the current year that will impact the audit of the City's consolidated financial statements.

SCOPE AND TIMING OF THE AUDIT

We have been engaged to perform the following services which are reported on to Council:

- Audit of the City's consolidated financial statements,
- Audit of the preparation of Form C2 - Home Owner Grant: Treasurer/Auditor Certificate
- Report on the City's compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act.

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in our Agreement for audit services with the City dated March 16, 2016. Our responsibilities and management's responsibilities are summarized in Appendix 1 to this letter.

We design an overall audit strategy and audit approach to address the significant risks identified during the planning process.

Materiality

The determination of materiality requires professional judgment and is based on a combination of quantitative and qualitative assessments including the nature of account balances and financial statement disclosures.



The first step is the determination of the amounts used for planning purposes as follows:

Materiality determination	Comments	Amount
Metrics	Relevant metrics included net assets, revenue, and expenses.	N/A
Benchmark	Based on total expenses from the prior year audited financial statements. This benchmark is consistent with other municipalities and with the prior year.	\$1.439 billion
Materiality	Determined 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. The corresponding amount for the prior year's audit was \$17 million.	\$24 million
% of Benchmark	The industry standard percentage for the audit is 0.5% and 3.0%. The corresponding percentage for the prior year's audit was 1.25%.	1.67%
Performance materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures. The corresponding amount for the prior year's audit was \$12.75 million.	\$18 million
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$850,000.	\$1.2 million
Reclassification on AMPT	Threshold used to accumulate reclassification misstatements identified during the audit. The corresponding amount for the previous year's audit was \$2.55 million.	\$3.6 million

Professional standards require us to re-assess materiality at the completion of our audit based on period-end results or new information in order to confirm whether the amount determined for planning purposes remains appropriate. Our assessment of misstatements, if any, in amounts or disclosures at the completion of our audit will include the consideration of both quantitative and qualitative factors.



Identification of significant risks

As part of our audit planning, we identify the significant financial reporting risks that, by their nature, require special audit consideration. By focusing on these risks, we establish an overall audit strategy and effectively target our audit procedures.

Significant unusual transactions

Other than those noted above, there were no significant unusual transactions identified through our discussions with management.

Risk of management override of controls

Although the level of risk of management override of controls will vary from entity to entity, professional standards require us to presume the risk of management override of controls is nevertheless present in all entities and requires the performance of specific procedures to address this presumed risk. We plan on performing the required procedures under professional standards. These include testing journal entries and performing a retrospective review of areas of estimate.

Key areas of focus

Although we did not identify any significant financial reporting risks, the changes in operations and significant matters noted previously will be key areas of focus for the audit that require specific attention.

Timing of audit and deliverables

Topic	Dates
Conducted interim audit field work	October 23 – November 3, 2017
Conduct year-end audit field work	February 26 – March 30, 2018
Provide audit opinion on financial statements	March 30, 2018
Present our year-end audit findings letter, including independence communications to Council	April 9, 2018



ANNUAL INQUIRIES OF COUNCIL

Professional auditing standards require that we make annual inquiries concerning Council's oversight of management's process for identifying and responding to the risks of fraud within the City. Accordingly we ask whether you:

- Are aware of, or have identified any instances of, actual, suspected, possible, or alleged non-compliance of laws and regulations or fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, have these instances been appropriately addressed to your satisfaction?
- Are aware of any significant fraud risks facing the City?
- Believe that Council exercises effective oversight of management's process for identifying and responding to the risk of fraud in the City and the internal controls that management has established to mitigate these fraud risks?
- Are aware of the City entering into any significant unusual transactions in addition to the significant matters noted previously?

If you have any matters that you would like to bring to our attention on the above questions, please contact Brian Szabo, Engagement Partner. We will consider the absence of a response as confirmation that Council is not aware of any issues noted above.

OBSERVATIONS AND INSIGHTS

During the course of our audit, we may become aware of a number of observations that may be of interest to you. These observations may include comments on risks and the City's approach to those risks, performance improvement observations, or other industry trends and developments. These observations are based on, among other things, our understanding of the affairs and processes of the City, as well as our understanding of many other entities in the same or other industries.

We will discuss any such observations with management and provide our insights. We will also include a synopsis of these observations and insights in our audit findings letter at the completion of the audit.

CURRENT DEVELOPMENTS IN ACCOUNTING STANDARDS

As accounting standards evolve over time, it is an important that Council be aware of their implications for the City's financial reporting. Senior management will be providing Council with a summary of upcoming standards and developments.



EXTRACTS FROM AUDIT AGREEMENT - MANAGEMENT'S AND AUDITORS' RESPONSIBILITIES

The following is a summary of management's and auditors' responsibilities, as required by professional auditing standards and as set out in our agreement for audit services with the City dated March 16, 2016:

Management's Responsibilities for the Financial Statements

Management is responsible for:

- (a) the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards.
- (b) ensuring that all transactions have been recorded and are reflected in the financial statements.
- (c) designing and implementation of internal controls to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
- (d) providing the auditor with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters, including the names of all related parties and information regarding all relationships and transactions with related parties.
- (e) providing the auditor with additional information that they may request for the purpose of the audit.
- (f) providing the auditor with written representations required to be obtained under professional standards and written representations that the auditor determine are necessary. Management also acknowledges and understands that professional standards require that the auditor may disclaim an audit opinion when management does not provide certain written representations as required.

An audit does not relieve management or those charged with governance of their responsibilities.

Auditors' Responsibilities Regarding the Audit of the Financial Statements

The auditor is responsible for expressing an opinion on whether the City's financial statements, prepared by management with the oversight of those charged with governance, are, in all material respects, in accordance with Canadian public sector accounting standards including:



- (a) conducting the audit of the City's financial statements in accordance with Canadian generally accepted auditing standards and relevant ethical requirements, including those pertaining to independence.
- (b) planning and performing the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.
- (c) identifying and assessing risks of material misstatement, whether due to fraud or error, based on an understanding of the City and its environment, including the City's internal control. In making those risk assessments, the auditor will consider internal control relevant to the City'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 City's internal control.
- (d) obtaining sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks.
- (e) forming an opinion on the City's financial statements based on conclusions drawn from the audit evidence obtained.
- (f) communicating matters required by professional standards, to the extent that such matters come to our attention, to the appropriate level of management, those charged with governance and/or Council. The form (oral or in writing) and the timing will depend on the importance of the matter and the requirements under professional standards.

Auditors' Responsibilities Regarding the Audit of the Home Owner Grant:
Treasurer/Auditor Certificate

The auditor will perform audit procedures with respect to the Home Owner Grant: Treasurer / Auditor Certificate ("the Certificate") in accordance with Canadian generally accepted auditing standards with the objective of expressing an opinion on whether the financial information in the Certificate presents fairly, in all material respects, in accordance with Section 12 of the Home Owner Grant Act. The auditor cannot provide assurance that an opinion without reservation will be rendered and circumstances may arise in which it is necessary for the auditor to modify the audit report or withdraw from the audit engagement.

Auditors' Responsibilities Regarding the Compliance with Subsections 2 and 3 of Section
124 of Part 8 of the School Act

We will perform audit procedures with respect to the City's compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act in accordance with Canadian generally accepted auditing standards with the objective of expressing an opinion on whether the City is in compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act.



City of Vancouver
February 20, 2018

The auditor cannot provide assurance that an opinion without reservation will be rendered and circumstances may arise in which it is necessary for the auditor to modify the audit report or withdraw from the audit engagement.

Management's and Auditors' Responsibilities Regarding Continuous Disclosure Documents

When the City intends to file an annual report and the auditors are requested to consent to the use of the audit report on the City's financial statements, professional standards require that we read the information contained in the annual report and consider whether such information is materially inconsistent with the related financial statements. Management is responsible for providing the auditors with adequate notice of the preparation of the annual report and providing the auditors with a copy, prior to their issuance, of the annual report. Furthermore, management has the responsibility for identifying subsequent events and providing appropriate disclosure in, or adjustment of, the financial statements as a result of such events as required by the financial reporting framework and for providing updated written representations to the date of the auditors' consent.