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To: "Direct to Mayor and Council - DL"
CC: "City Manager's Correspondence Group - DL"
"Impey, Patrice" <Patrice.Impey@vancouver.ca>
Date: 2/3/2020 10:10:33 AM
Subject: 2019 Audit Planning Report
Attachments: 19 COV APR - Final.pdf
19 COV Council Letter.pdf

Dear Mayor and Council,

Please see attached the 2019 year end Audit Planning Letter and Audit Planning Report (APR) from our auditor KPMG.

The letter contains a summary of the planned scope and timing of the audit for the year ended December 31, 2019 with more detail included in the APR.

- ☐ There are no significant changes in operations or significant unusual transactions in the current year that will significantly impact the audit of the City's consolidated financial statements.
- ☐ As noted in the letter, auditing standards require the auditor to make certain enquiries of the General Manager, Finance, Risk and Supply Chain Management/CFO as listed on page 6 of the Audit Planning Report. If Council has any additional information related to those questions you are asked to contact C.J. James, Engagement Partner.
- ☐ This is for information only, no action is required on your part unless you wish to provide additional information related the enquires made of the General Manager, Finance, Risk and Supply Chain Management/CFO.

Should you have any questions please contact Patrice Impey at 604.873.7610 or Patrice.Impey@vancouver.ca.

Best,
Sadhu

Sadhu Aufochs Johnston | City Manager
Office of the City Manager | City of Vancouver
604.873.7627 | sadhu.johnston@vancouver.ca

Pronouns: he, him, his



The City of Vancouver acknowledges that it is situated on the unceded traditional territories of the Musqueam, Squamish, and Tsleil-Waututh peoples.



City of Vancouver

Audit Planning Report for the year ending
December 31, 2019

KPMG LLP

January 31, 2020

kpmg.ca/audit



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At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours**.



The contacts at KPMG in connection with this report are:

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This Audit Planning Report should not be used for any other purpose or by anyone other than Council and the General Manager, Finance, Risk and Supply Chain Management/CFO. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Planning Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.



Executive summary

We are pleased to provide for the review of the General Manager, Finance, Risk and Supply Chain Management/CFO the following information relating to the planned scope and timing for the audit of the consolidated financial statements of the City of Vancouver (the “City”) for the year ending December 31, 2019.



Areas of audit focus

Our audit of the City is risk-focused. As part of our audit process, we have had discussions with management about any changes in the organization or other items that should be brought to our attention and considered the impact to the audit. In planning our audit, we have taken into account key areas of audit focus for financial reporting. These include:

- Community amenity contributions;
- Deferred liabilities;
- Development cost levies; and
- Tangible capital assets

See pages 4 to 5 for further details.



Changes in operations

There are no significant changes in the operations that will impact the audit of the City's consolidated financial statements.



Changes in accounting standards

PS 3430 *Restructuring Transactions* is effective for the City's 2019 fiscal year. Management has assessed the impact of the new accounting standard. There is no expected impact on the consolidated financial statements from the adoption of the new accounting standard.



Executive summary (continued)



Audit materiality

Materiality has been determined based on total expenses. We have determined materiality to be \$29,000,000 (2018 - \$26,000,000) for the year ending December 31, 2019.

See page 7 for further details.



Independence

We are independent of the City and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow the City's approved protocols.



Current developments

As accounting standards evolve, it is important that those charged with governance remain aware of the implications for the City's financial reporting.

See Appendix 4 for further details.

Group audit scope

Professional standards require that we obtain an understanding of City's organizational structure, including its components and their environments that is sufficient to identify those components that are financially significant or that contain specific risks that must be addressed during our audit.

The components included in the City's consolidated entity over which we plan to perform our audit procedures are as follows:

Components	Assessment of component relative to the consolidated financial statements	Scope
City of Vancouver (non-consolidated entity)	Financially significant	Audit
Pacific National Exhibition (PNE)	Not financially significant	We will perform an analytical review of each entity's balances relative to the prior year. Where unusual fluctuations in balances are noted, we may perform additional procedures.
Hastings Institute Inc.		
Harbour Park Development Ltd.		
Parking Corporation of Vancouver (EasyPark)		
Vancouver Economic Commission		
Vancouver Civic Development Corporation		
City of Vancouver Public Housing Corporation		
Vancouver Affordable Housing Agency		

Areas of audit focus

Area of focus	Why are we focusing here?	Our audit approach
Community amenity contributions ("CAC")	The City approves development rezoning applications that include CAC. The agreements include the amounts the City will receive over a predetermined timeline, from pre-enactment of the rezoning bylaw to completion of the development.	<ul style="list-style-type: none"> – Update our understanding of the process activities and controls over CAC through inquiries with management, and review of Council reports and zoning bylaw amendments. – Review the agreements and ensure the appropriate amount of revenue has been recognized in the year. – Select a sample of amounts received in the year and agree the amount recorded to cash receipts and supporting documentation. – Analyze the collectability of the CAC receivables through discussion with management, and review of guarantees and other documentation.
Deferred liabilities	Included in the City's deferred liabilities are employee future benefits liabilities and the landfill closure and post-closure costs liability. These balances require estimation.	<ul style="list-style-type: none"> – Update our understanding of the process activities and controls over deferred liabilities. – Obtain a copy of the actuarial report for the employee future benefits liability. Agree the amount in the report to the amount recorded in the general ledger. Ensure the significant assumptions used by the actuary are reasonable, and the data used by the actuary for the valuation is complete and accurate. – Obtain management's calculation of the landfill closure and post-closure liability. Agree significant inputs to the calculation to supporting documentation. Review any significant changes in assumptions from the prior year and ensure they are reasonable. – Review the financial statement note disclosure to ensure it is in compliance with the requirements of Canadian public sector accounting standards.

Areas of audit focus (continued)

Area of focus	Why are we focusing here?	Our audit approach
Development cost levies ("DCL")	DCL charged by the City are recorded as a liability and recognized as revenue when the expenditures have been incurred.	<ul style="list-style-type: none"> – Update our understanding of the process activities and controls over DCL. – Select a sample of DCL charges, recalculate the total amount, agree each factor in the calculation to supporting documentation (e.g. approved rates) and agree the amount recorded to cash receipts. – Select a sample of DCL expenditures, ensure the expenditures bylaws were approved by Council and agree the amount recorded to supporting documentation. – Select a sample of development permits and ensure that any related DCL have been recorded.
Tangible capital assets ("TCA")	TCA are a significant portion of the City's total assets. The assets owned by the City are complex and may require estimation related to componentization and the fair value of developer contributed assets.	<ul style="list-style-type: none"> – Update our understanding of the process activities and controls over TCA. – Select a sample of TCA additions and agree the balance recorded to supporting documentation, and ensure it is appropriate to capitalize the costs. – Select a sample of contributed assets and agree the fair value on the date the assets were received to supporting documentation. – Select a sample of TCA disposals and agree the proceeds on disposition to cash receipts and recalculate the gain/loss recorded in the general ledger.



Audit risks

Professional requirements

Fraud risk from management override of controls.

Why is it significant?

This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

Our audit approach

As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

Annual inquiries

Professional auditing standards require that we annually inquire concerning the General Manager, Finance, Risk and Supply Chain Management/CFO's oversight of management's process for identifying and responding to the risks of fraud with the City. Accordingly, we ask the General Manager, Finance, Risk and Supply Chain Management/CFO:

- What are your views about fraud risks at the City?
- How do you exercise effective oversight of management's processes for identifying and responding to the risk of fraud in the City and internal controls management has established to mitigate these fraud risks?
- Are you aware of or have you identified any instances of actual, suspected, or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?
- Is the City in compliance with laws and regulations?
- Has the City entered into any significant unusual transactions?

Materiality

Materiality determination	Comments	Group amount
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 \$26,000,000.	\$29,000,000
Benchmark	Based on total expenses for 2018. This benchmark is consistent with the prior year. The corresponding amount for the 2018 audit was \$1,535,000,000 (total expenses for 2017).	\$1,587,000,000
% of Benchmark	The corresponding percentage for the prior year's audit was 1.7%.	1.8%
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$1,300,000.	\$1,450,000
	Threshold used to accumulate reclassification misstatements identified during the audit. The corresponding amount for the previous year's audit was \$3,900,000.	\$4,350,000

Materiality is used to scope the audit, identify risks of material misstatements and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

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.

We will report to those charged with governance:



Corrected audit misstatements



Uncorrected audit misstatements

Key deliverables and milestones



Appendices



Appendix 1: Audit quality and risk management



Appendix 2: KPMG's audit approach and methodology



Appendix 3: Required communications



Appendix 4: Current developments

Appendix 1: Audit quality and risk management



KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards. Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems. Visit our [Audit Quality Resources page](#) for more information including access to our most recent Audit Quality and Transparency Report.

We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.

We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality. We do not offer services that would impair our independence.

All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.

The processes we employ to help retain and develop people include:

- Assignment based on skills and experience
- Rotation of partners
- Performance evaluation
- Development and training
- Appropriate supervision and coaching



We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.

Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Other controls include:

- Before the firm issues its audit report, Engagement Quality Control
- Reviewer reviews the appropriateness of key elements client audits
- Technical department and specialist resources provide real-time support to audit teams in the field

Appendix 2: KPMG's audit approach and methodology



In future years, we will expand our use of technology in our audit through our new smart audit platform, KPMG Clara.

Issue identification

Continuous updates on audit progress, risks and findings before issues become events

Data-driven risk assessment

Automated identification of transactions with unexpected or unusual account combinations – helping focus on higher risk transactions and outliers



Deep industry insights

Bringing intelligence and clarity to complex issues, regulations and standards

Analysis of complete populations

Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes

Reporting

Interactive reporting of unusual patterns and trends with the ability to drill down to individual transactions

Appendix 3: Required communications



In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:



Engagement letter

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the Agreement for Audit Services dated March 16, 2016.



Management representation letter

We will obtain from management certain representations at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the General Manager, Finance, Risk and Supply Chain Management/CFO.



Audit planning report

Represented by this report.



Audit findings report

At the completion of our audit, we will provide our audit findings to the General Manager, Finance, Risk and Supply Chain Management/CFO.



Independence

At the completion of our audit, we will re-confirm our independence to the General Manager, Finance, Risk and Supply Chain Management/CFO.

Appendix 4: Current developments

Public Sector Accounting Standards

Standard	Summary and implications
Asset Retirement Obligations	<ul style="list-style-type: none"> – A new standard, PS 3280 <i>Asset Retirement Obligation</i>, has been approved. The standard is effective for the City's December 31, 2022 financial statements. Early adoption is permitted. – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector entity will have to: <ul style="list-style-type: none"> • consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.
Revenue	<ul style="list-style-type: none"> – A new standard, PS 3400 <i>Revenue</i>, has been approved. The standard is effective for the City's December 31, 2023 financial statements. Early adoption is permitted. – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that in the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. – The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Current developments (continued)

Standard	Summary and implications
Financial Instruments and Foreign Currency Translation	<ul style="list-style-type: none"> – New accounting standards, PS 3450 <i>Financial Instruments</i>, PS 2601 <i>Foreign Currency Translation</i>, PS 1201 <i>Financial Statement Presentation</i> and PS 3041 <i>Portfolio Investments</i> have been approved by PSAB. The standards are effective for the City's December 31, 2022 financial statements. Early adoption is permitted. – Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. – Hedge accounting is not permitted. – A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. – Based on stakeholder feedback received, PSAB is considering certain scope amendments to PS 3450 <i>Financial Instruments</i>. The proposed amendments include the accounting treatment of bond repurchases, scope exclusions for certain activities by the federal government, and improvements to the transitional provisions. An initial exposure draft was issued for comment by PSAB in May 2019. PSAB is currently deliberating on the comments received and may approve a revised exposure draft for comment in December 2019.

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PRIVATE AND CONFIDENTIAL

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

January 31, 2020

To the Mayor and Council of the City of Vancouver (collectively referred to as "Council"):

We are pleased to provide for your information the attached report ("Audit Planning Report") which we have submitted to Patrice Impey, General Manager, Finance, Risk and Supply Chain Management/CFO. This report outlines the planned scope and timing for the audit of the consolidated financial statements of the City of Vancouver (the "City") for the year ending December 31, 2019.

Although provided for your information, we would be pleased to receive any feedback you may have with respect to the planned scope or timing of our audit.

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the Agreement for Audit Services dated March 16, 2016 between KPMG and the City.

A summary of our Audit Planning Report follows below.

There are no significant changes in operations or significant unusual transactions in the current year that will significantly impact the audit of the City's consolidated financial statements.

For the current period, materiality has been determined as \$29,000,000 (2018 – \$26,000,000) based on the benchmark of total expenses. We will reassess 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.

Specific areas of focus for our audit include community amenity contributions, deferred liabilities, development cost levies and tangible capital assets. Professional standards presume the risk of management override of controls is 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, including tests on journal entries, estimates and significant unusual transactions.

PS 3430 *Restructuring Transactions* is a new accounting standard effective for the City's 2019 fiscal year. There is no expected impact on the consolidated financial statements from the adoption of the new accounting standard.



City of Vancouver
January 31, 2020

Professional auditing standards require that we annually inquire concerning those charged with governance's oversight of management's process for identifying and responding to the risks of fraud within the City. We have discussed these items with the General Manager, Finance, Risk and Supply Chain Management/CFO. For your information, these inquiries are included on page 6 of the attached Audit Planning Report. If Council has any additional information related to above questions, please contact C.J. James, Engagement Partner either by phone at 604-527-3635 or email at cjjames@kpmg.ca.

We appreciate the opportunity to serve you and look forward to our continuing relationship.

Yours very truly,

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

C.J. James, CPA, CA
Engagement Partner
(604) 527-3635

cc: Mr. Sadhu Johnston, City Manager

Ms. Patrice Impey, General Manager/CFO, Finance, Risk and Supply Chain
Management

Enclosure: Audit Planning Report