

City of Victoria

Audit findings report to the Mayor and Council
for the year ended December 31, 2024

START



To the Mayor and Council of City of Victoria

We are pleased to provide you with the results of our audit of the financial statements of The Corporation of the City of Victoria (the "City") for the year ended December 31, 2024. This report should be read in conjunction with our planning report, dated September 19, 2024, which contains further information about our audit methodology, our responsibilities as auditors and the responsibilities of those charged with governance.

The enclosed report includes: significant risks identified and the nature, extent, and results of our audit work. We also report any significant internal control deficiencies identified during our audit and reconfirm our independence.

During the course of our audit, management made certain representations to us—in discussions and in writing. We documented these representations in the audit working papers.

This report has been prepared solely for the use of the City's Mayor and Council and others within the organization, and should not be distributed without our prior consent. Consequently, we accept no responsibility to a third party that uses this communication.

We look forward to discussing our audit conclusions with you. In the meantime, please feel free to contact us if you have any questions or concerns.

Yours truly,

BDO Canada LLP

BDO Canada LLP

April 22, 2025

For the year ended December 31, 2024



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Audit at a glance

Status of the Audit

We have substantially completed our audit of the financial statements for the year ended December 31, 2024.

We conducted our audit in accordance with Canadian generally accepted auditing standards. The objective of our audit was to obtain reasonable, not absolute, assurance about whether the financial statements are free from material misstatement.

Our draft independent auditor's report is attached to the draft financial statements.

Management Representations

During the course of our audit, management made certain representations to us, either verbally or written, and therefore they were explicit, or they were implied through the financial statements. Management provided representations in response to specific queries from us, as well as unsolicited representations. These representations were part of the evidence gathered by us to draw reasonable conclusions on which to base our audit opinions. These representations were documented throughout the audit files.

A summary of the written representations we have requested from management is included in [Appendix A](#).

Scope of our Work

The scope of the work performed was substantially the same as that described in our Planning Report to the Mayor and Council dated September 19, 2024.

A chart of the inherent risks identified in connection with the City's financial statements was included in our Planning Report. Our risk assessments did not significantly change throughout the course of the audit.

As communicated to you in our Planning Report, preliminary materiality for all items other than infrastructure was set at \$8.2m and materiality for financial statement amounts related to infrastructure was set at \$14.4m. These levels are based on expenses and tangible capital assets and have not changed through the course of our audit.

Audit Findings

The procedures performed over key risk areas and the results of these procedures are described on [page 5](#).

Audit differences identified are listed on [page 9](#).

Considerations related to internal controls at the City are described on [page 10](#). No significant deficiencies were identified.

Other communications that are required by audit standards are specified on [page 11](#).

Independence & Professional Ethics

Our annual letter confirming our independence is included in [Appendix B](#).



We have complied with relevant ethical requirements and confirm that we are independent with respect to the City within the meaning of the Code of Professional Conduct of the Chartered Professional Accountants of British Columbia.



Audit findings

As part of our ongoing communications with you, we are required to have a discussion on our views about significant qualitative aspects of the City's accounting practices, including accounting policies, accounting estimates and financial statements disclosures. We look forward to discussing these topics and answering your questions.

Findings relating to risks classified as significant are as follows:

Financial statement areas	Risks noted	Procedures performed
Management Override of Internal Controls <i>[Mandatory audit consideration]</i>	Management is generally in a unique position to perpetrate fraud because of its ability to directly or indirectly manipulate accounting records, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. This risk is not unique to the City.	Reviewed transactions recorded in the various ledgers for unusual or non-recurring adjustments not addressed by other audit procedures. Reviewed the controls, in particular relating to the processing of journal entries, and examined a sample of journal entries. All audit testing in this area was performed as planned with no issues to report.



Audit findings (continued)

Findings related to risks classified as elevated, moderate or low are as follows:

Financial statement areas	Risks noted	Procedures performed
Implementation of new accounting standard: PSAS 3400 Revenue [Elevated risk]	The City implemented the new public sector accounting standard for revenue (PSAS 3400). This standard introduces new guidance in regards to the timing of recognition of certain of the City's revenue streams where specific accounting standards have not previously applied. As with the implementation of any new accounting standard there is an elevated risk due to the novel considerations that must be made.	<p>For each of the revenue streams identified as being in-scope of PSAS 3400 by management, we reviewed management's analyses identifying when and how revenue will be recognized to ensure these assessments are in accordance with the new standard.</p> <p>For revenue streams identified by management as not being in-scope of PSAS 3400, we reviewed the scoping work performed by management to ensure these assessments are in accordance with the new standard.</p> <p>All audit testing in this area was performed as planned with no material issues to report. We have identified ongoing reporting risks in connection with this new standard and have made recommendations to mitigate them. See page 8.</p>
Implementation of new accounting standard: PSAS 3160 Public Private Partnerships [Elevated risk]	The City implemented the new public sector accounting standard for public private partnerships (PSAS 3160). This standard introduces new guidance in regards to recognition and measurement of infrastructure assets that have been funded through public-private partnerships, and the related liabilities. While these arrangements are not as prevalent in local government environments as they are in senior government environments, there is a risk that the City has entered into an arrangement that meets the criteria of this new standard. As with the implementation of any new accounting standard the risk is elevated due to the novel considerations that must be made.	<p>We reviewed management's documentation regarding the process that was applied to identify arrangements that are potentially in scope of this standard. We further considered whether any infrastructure assets, revenue streams, or payment streams in the year indicated the existence of an arrangement in scope of PSAS 3160.</p> <p>No arrangements were identified as being in-scope of PSAS 3160.</p> <p>All audit testing in this area was performed as planned with no issues to report.</p>



Audit findings (continued)

Financial statement areas	Risks noted	Procedures performed
Employee Future Benefit Obligation <i>[Elevated risk]</i>	This is a complex area where BDO expects that the services of an external expert will be required. This risk rating reflects BDO's assessment of risk prior to the consideration of an appropriately qualified expert (the inherent risk). The magnitude of total existing and expected employee future benefits varies from organization to organization and it can be material.	<p>Corresponded with the expert engaged by management and verified that the services they provided are in accordance with our expectations based on our understanding of the City's financial reporting needs.</p> <p>Examined the report provided by this expert and assessed the reasonability of the assumptions and judgements made.</p> <p>Assessed the application of the relevant public sector accounting standards in the expert's conclusions and recommendations to management.</p> <p>All audit testing in this area was performed as planned with no issues to report.</p>
Recognition of Grant & Government Transfer Revenue <i>[Normal risk]</i>	Accounting standards relating to grant and government transfer revenue recognition are complex and open to variation in application. There is a risk that grants and other government transfers may be incorrectly deferred into future periods or recognized prior to stipulations being met.	<p>Reviewed a sample of funding agreements relating to both recognized and deferred revenue and verified that the recognition or deferral of revenue occurred in accordance with any stipulations present in the funding agreements.</p> <p>Verified a sample of cash receipts in connection with the government transfer revenue recognized.</p> <p>All audit testing in this area was performed as planned with no issues to report.</p>
Risk of Fraudulent Revenue Recognition <i>[Presumption of fraud risk rebutted]</i>	Auditing standards require us to consider the risk of fraudulent revenue recognition. Due to the nature of the City's revenue streams, we have rebutted this presumption.	



Audit findings (continued)

Implementation of New Accounting Standard: PSAS 3400 - Revenue

During the year, the City implemented PSAS 3400. This new standard clarifies the point in time that revenue should be recognized. The standard does this for a broad variety of revenue streams, and by relating revenue recognition to an organization's satisfaction of the performance obligations that it has to other organizations or individuals.

The City has a number of revenue streams within the scope of PSAS 3400. Management has invested significant time to gather information on these streams and analyze them in the context of PSAS 3400. The output of this work is the formal identification of performance obligations for many of the City's revenue streams.

In many cases the existing accounting processes already resulted in revenue recognition occurring materially within the appropriate fiscal year. However, the changes brought on by this new standard are significant and there is risk that, without further evolution of accounting and other processes, revenue recognition errors may accumulate in the future. We have made the following observations for the City's consideration:

1 - Identification of performance obligations

In some cases there is very little uncertainty whether an action taken by the City is a performance obligation. For example, the delivery of water to a user for their consumption is a performance obligation for water services revenue. In other cases it is not be so clear. The City may have an established practice of performing certain activities - such as inspections during a permitting process - but the contractual arrangement with the end user may not obligate the City to perform these activities. In this case, the activity may not meet the definition of a performance obligation.

Best practices in this area are expected to evolve as all users of Public Sector Accounting Standards continue to interpret PSAS 3400 and evaluate their revenue streams. We recommend that the City continue to evaluate revenue streams in this second year of adoption of PSAS 3400, particularly those streams where there is uncertainty around the City's obligations, if any. We recommend ensuring that the City's standard templates for contracts, permits and licenses are clear on the obligations that the City has under these arrangements.

2 - Tracking of performance obligations

The City's revenue streams are diverse and involve a high volume of transactions. Correspondingly, the City has and executes a high volume of performance obligations. In some cases, such as with metered water and sewer services, there is a well-established and reliable system to track performance obligations (which is the processing of volumes of water). In other cases, the systems in place are either less established or are not integrated with accounting processes.

An area where this is likely to be prevalent is permitting. Specifically, permitting relating to development activities may involve performance obligations other than the issuance of a permit. However, tracking the completion of these activities is unlikely to be 'real time' as in the case of water metering. And in cases where tracking of activities is robust within operations, that data may not be **flowing** efficiently into the financial accounting processes.

Getting the right information, to the right people, and at the right time, is a challenge for all organizations. The implementation of PSAS 3400 is an opportunity to put a lens on the City's information systems and look for areas where improvements can be made in both efficacy and efficiency of information flow. We recommend that the City continue to review related processes in this second year of adoption of PSAS 3400.

3 - Estimates used to measure performance obligations

In the case of some revenue streams, the City is using estimates of the completion of performance obligations to determine revenue recognition. This may occur as a practical response to data collection challenges discussed above, or due to execution of performance obligations occurring over a period of time rather than being measurable by discrete actions.

In these cases, the City is using a combination of historical data and management judgements to estimate the time period over which an income transaction is recognized as revenue. There is a risk that the historical norms and judgements used in this estimate, while appropriate now, will not be so in the future. We therefore recommend adopting a policy that requires these estimates to be re-assessed on a recurring basis.



Audit differences

Unadjusted audit differences

Through the course of our audit we have not identified any unadjusted audit differences.

Adjusted audit differences

Through the course of our audit we have not identified any audit differences that were adjusted by management.

Disclosure omissions

Through the course of our audit we have not identified any material disclosure omissions.



Internal control matters



We are required to report to you in writing about any significant deficiencies in internal control that we have identified during the audit.

A significant deficiency is defined as a deficiency or combination of deficiencies in internal control that merits the attention of those charged with governance.

The audit expresses an opinion on the City's financial statements. As a result, it does not cover every aspect of internal controls—only those relevant to preparing the financial statements and designing appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

No control deficiencies were noted that, in our opinion, rise to the level of a significant deficiency.

During the audit, we performed the following procedures regarding the City's internal control environment:

- ▶ Documented operating systems to assess the design and implementation of control activities that were relevant to the audit.
- ▶ Discussed and considered potential audit risks with management.

We considered the results of these procedures in determining the extent and nature of audit testing required.



Other required communications

Professional standards require independent auditors to communicate with those charged with governance certain matters in relation to an audit. In addition to the points communicated within this letter, the attached table summarizes these additional required communications.

Issue	BDO response
Our responsibilities under Canadian Auditing Standards (CAS)	Included in our Engagement Letter dated November 3, 2023
Our audit strategy and audit scope	Included in our Planning Report dated September 19, 2024
Fraud risk factors	Included in our Planning Report dated September 19, 2024
Going concern matters	No matters requiring further communication.
Significant estimates or judgments	No matters requiring further communication.
Disagreements with management	No matters requiring further communication.
Consultations with other accountants or experts	<p>As described in our Planning Report dated September 19, 2024, we corresponded with and reviewed the work of George and Bell Consulting, who is the actuarial firm engaged by Management to value the City's Employee Future Benefits Liability.</p> <p>BDO did not engage or consult with any external experts for the purpose of this engagement.</p>



Other required communications

Professional standards require independent auditors to communicate with those charged with governance certain matters in relation to an audit. In addition to the points communicated within this letter, the attached table summarizes these additional required communications.

Issue	BDO response
Major issues discussed with management regarding retention	No matters requiring further communication.
Significant difficulties encountered during the audit	No matters requiring further communication.
Material written communication between BDO and management	No matters requiring further communication.
Any illegal acts identified during the audit	No matters requiring further communication.
Significant transactions with related parties not consistent with ordinary business operations	No matters requiring further communication.
Non-compliance with laws or regulations identified during the audit	No matters requiring further communication.
Limitations of scope over our audit, if any	No matters requiring further communication.



Appendices

- ▶ [Appendix A: Representation Letter](#)
- ▶ [Appendix B: Independence Letter](#)



Appendix A: Representation Letter

Reporting Date

BDO Canada LLP
Chartered Professional Accountants
Royal Centre, 1055 West Georgia Street,
Unit 1100, P.O. Box 11101
Vancouver, British Columbia
V6E 3P3

This representation letter is provided in connection with your audit of the financial statements of City of Victoria for the year ended December 31, 2024, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with Canadian Public Sector Accounting Standards.

We confirm that to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated November 3, 2023, for the preparation of the financial statements in accordance with Canadian Public Sector Accounting Standards; in particular, the financial statements are fairly presented in accordance therewith.

- The methods, significant assumptions, and data used in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement and/or disclosure that are reasonable in accordance with Canadian Public Sector Accounting Standards.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Canadian Public Sector Accounting Standards.
- All events subsequent to the date of the financial statements and for which Canadian Public Sector Accounting Standards require adjustment or disclosure have been adjusted or disclosed.
- The financial statements of the entity use appropriate accounting policies that have been properly disclosed and consistently applied.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. No material unadjusted misstatements were identified.

Information Provided

- 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;
 - 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.

- We are responsible for the design, implementation and maintenance of internal controls to prevent, detect and correct fraud and error, and have communicated to you all deficiencies in internal control of which we are aware.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Fraud and Error

- 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.
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators, or others.

General Representations

- Where the value of any asset has been impaired, an appropriate provision has been made in the financial statements or has otherwise been disclosed to you.
- Except as disclosed in the financial statements, there have been no changes to title, control over assets, liens or assets pledged as security for liabilities or collateral.
- The entity has complied with all provisions in its agreements related to debt and there were no defaults in principal or interest, or in the covenants and conditions contained in such agreements.
- There have been no plans or intentions that may materially affect the recognition, measurement, presentation or disclosure of assets and liabilities (actual and contingent).
- The nature of all material uncertainties have been appropriately measured and disclosed in the financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.
- There were no direct contingencies or provisions (including those associated with guarantees or indemnification provisions), unusual contractual obligations nor any substantial commitments, whether oral or written, other than in the ordinary course of business, which would materially affect the financial statements or financial position of the entity, except as disclosed in the financial statements.

Other Representations Where the Situation Exists

- We have informed you of all known actual or possible litigation and claims, whether or not they have been discussed with legal counsel. Since there are no actual, outstanding or possible litigation and claims, no disclosure is required in the financial statements.
- We will provide to you, when available and prior to issuance by the entity, the final draft version of the document(s) comprising the annual report.
- We have not identified any public-private-partnership arrangements that are in scope of PSAS 3160 and would require recognition or disclosure in the financial statements.

Yours truly,

Susanne Thompson, Deputy City Manager & CFO

Raymond Lin, Manager of Accounting



Appendix B: Independence Letter



Tel: 604 688 5421
Fax: 604 688 5132
vancouver@bdo.ca
www.bdo.ca

BDO Canada LLP
Unit 1100 - Royal Centre
1055 West Georgia Street
Vancouver, BC V6E 3P3 Canada

April 22, 2025

To the Mayor and Council
The City of Victoria

We have been engaged to audit the financial statements of The Corporation of the City of Victoria (the "City") for the year ended December 31, 2024.

Canadian generally accepted auditing standards require that we communicate at least annually with you regarding all relationships between the City and our Firm that, in our professional judgment, may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute/order and applicable legislation, covering such matters as:

- Holding a financial interest, either directly or indirectly in a client;
- 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;
- Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- Economic dependence on a client; and
- Provision of services in addition to the audit engagement.

We are not aware of any relationships between the City and our Firm that, in our professional judgment may reasonably be thought to bear on independence that have occurred from the date of our last letter on April 18, 2024, to the date of this letter.

We hereby confirm that we are independent with respect to the City within the meaning of the Code of Professional Conduct of the Chartered Professional Accountants of British Columbia as of the date of this letter.

This letter is intended solely for the use of the Mayor and Council, management and those charged with governance within the City and should not be used for any other purpose.

Yours truly,

BDO Canada LLP

Chartered Professional Accountants