

The Corporation of the City of Victoria
Final Report to the Committee of the Whole

For the year ended December 31, 2017

Dated April 11, 2018 for presentation on April 26, 2018



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April 11, 2018

Mayor and Council
The Corporation of the City of Victoria
1 Centennial Square
Victoria, BC V8W 1P6

Dear Members of Council:

We are pleased to present the report on 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, 2017. The purpose of this report is to summarize certain aspects of the audit that we believe to be of interest to the Council and should be read in conjunction with the draft financial statements and our draft audit report which is included as Appendix A.

We would like to bring to your attention that our audit and therefore this report will not necessarily identify all matters that may be of interest to the Council in fulfilling its responsibilities.

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

We wish to express our sincere appreciation for the co-operation we received during the audit from the City's management and staff who have assisted us in carrying out our work. We look forward to connecting with you to discuss the contents of this report and any other matters that you consider appropriate.

Yours truly,

A handwritten signature in black ink that reads "Bill Cox". The signature is written in a cursive, flowing style.

Bill Cox, FCPA, FCA
Partner through a corporation
BDO Canada LLP
Chartered Professional Accountants

BC/mkn



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EXECUTIVE SUMMARY

Audit Findings	<p>Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance as to whether the financial statements are free of material misstatement.</p> <p>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. The scope of the work performed was substantially the same as that described in our Planning Report to Council dated September 25, 2017.</p> <p>A detailed description of our audit findings has been detailed in this report.</p>
Status of Audit	<p>As of the date of this report, we have substantially completed our audit of the year-end financial statements pending the completion of the items highlighted below. These items will need to be completed prior to issuance of our audit report on the financial statements:</p> <ul style="list-style-type: none">• Receipt of the signed management representation letter• Receipt of certain outstanding legal confirmations• Subsequent events review through to financial statement approval date• Approval of financial statements by Council
Audit Risks	<p>In accordance with our audit plan, our procedures focused on the following areas that we identified as containing risks of material misstatements:</p> <ul style="list-style-type: none">• Risk of Management Override• Revenue Recognition• Tangible Capital Assets and Accumulated Amortization• Employee Future Benefits• Salaries and Benefits• Cash and Investments <p>We have summarized the results of our audit procedures for each of these risk areas in the body of this report.</p>
Internal Control Over Financial Reporting	<p>We did not identify any significant deficiencies in internal controls over financial reporting during the year ended December 31, 2017 that we considered to be material weaknesses.</p>
Fraud and Illegal Activities	<p>We developed procedures within our audit plan as recommended by CAS 240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements. Based on these procedures, we have not encountered any illegal activities or fraudulent events with respect to the City.</p>
Significant Events	<p>As of the date of this letter, we have not identified any significant events which we believe should be brought to your attention.</p>

Significant Accounting Policies	The client's significant accounting policies are listed in the financial statements. We believe management's selection of accounting policies is appropriate under Canadian public sector accounting standards.
Estimates	<p>Accounting estimates are an integral part of the financial statements and are based on management's current judgments. These judgments are based on knowledge and experience about past and current events, assumptions about future events and interpretations of the financial reporting standards.</p> <p>Our comments on the significant estimates included in the financial statements are included on page 9 of this report.</p>
Materiality, Audit Adjustments and Unadjusted Differences	<p>Our final materiality level of \$3,400,000 did not change from our planning materiality in our audit planning letter dated September 25, 2017.</p> <p>There were no adjusted or unadjusted audit misstatements for the year ended December 31, 2017 as disclosed in Appendix C.</p>
Disclosures	There are no material omissions with respect to the disclosures in the financial statements for the year ended December 31, 2017 that we have noted.
Independence	We confirm that we are still independent as of the date of this letter.
Representation Letter	A draft version of the representation letter to be signed by management is included in Appendix D.
Conclusion	We intend to issue an unmodified audit report on the financial statements for the year ended December 31, 2017 prepared in accordance with Public Sector Accounting Standards once the outstanding items referred to above are satisfactorily resolved and the financial statements are approved by Council.



INDEPENDENCE

At the core of the provision of external audit services is the concept of independence. Canadian generally accepted auditing standards require us to communicate to the Council at least annually, all relationships between BDO Canada LLP and its related entities and the City, that, in our professional judgment, may reasonably be thought to bear on our independence with respect to the audit of the City.

Our annual letter confirming our independence was previously provided to you. We know of no circumstances that would cause us to amend the previously provided letter.

MATERIALITY

Misstatements, including omitted financial statement disclosures, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As communicated to you in our Planning Report to the Council, preliminary materiality was \$3,400,000. Final materiality remained unchanged from our preliminary assessment.

AUDIT FINDINGS

Based on our knowledge of the operations of the City, our past experience, and knowledge gained from management and Council, we have identified the following areas of focus that, in our judgment, require special audit consideration.

Significant risks arise mainly because of the complexity of the accounting rules, the extent of estimation and judgment involved in the valuation of these financial statement areas, and the existence of new accounting pronouncements that affect them.

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 statement disclosures. In order to have a frank and open discussion, these matters will be discussed verbally with you. A summary of the key discussion points are as follows:

KEY AUDIT AREAS

Risk of Management Override

Key audit area	Approach	Results
<p>Management is in a unique position to perpetrate fraud because of management's ability to directly or indirectly manipulate accounting records, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>This risk is required for all audits pursuant to Canadian audit standards.</p>	<p>We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>We also obtained an understanding of the rationale for significant transactions that we became aware of that were outside the normal course of operations for the City, or that otherwise appear to be unusual given our understanding of the entities and their environment. We reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud.</p>	<p>All audit testing in this area was executed as planned and no issues were noted.</p>

OTHER ACCOUNTING AND AUDIT MATTERS

Revenue Recognition

Key Audit Area	Approach	Results
<p>Accounting standards in this area are complex and open to interpretation. There is a risk that revenue may be incorrectly deferred into future periods.</p>	<p>We reviewed grant agreements to ensure that revenue is being recognized in accordance with the latest revenue recognition standards.</p> <p>We reviewed grant expenditures to ensure that they meet the requirements per the grant agreement.</p> <p>Other revenues streams were reviewed in accordance with latest revenue recognition standards.</p>	<p>All audit testing in this area was executed as planned and no issues were noted.</p>

Tangible Capital Assets and Accumulated Amortization

Key audit area	Approach	Results
<p>Useful life estimates will need to be re-evaluated to determine if they are still accurate. This involves a high level of estimation and coordination of the finance department with other departments.</p>	<p>Performed tests of controls for appropriate authorization of purchases combined with substantive testing of additions and disposals in the year and amortization calculations.</p> <p>Reviewed policies on procurement for major projects and perform review of actual expenditures to approved budgets. Considered impairment for existing assets that are being replaced by new capital projects.</p> <p>Reviewed for changes in estimates of useful lives of existing assets.</p>	<p>All audit testing in this area was executed as planned and no issues were noted.</p>

Employee Future Benefits

Key audit area	Approach	Results
<p>A complex area that requires a great degree of estimation and reliance on actuarial experts.</p>	<p>We have reviewed the actuarial report for the current year and audited the significant assumptions and employee inputs provided by the City to the actuary.</p> <p>We communicated directly with the external actuaries.</p> <p>As part of our audit, we reviewed the appropriateness of disclosure of employee future benefits in the notes to the financial statements.</p>	<p>All audit testing in this area was executed as planned and no issues were noted.</p>

Salaries and Benefits

Key audit area	Approach	Results
<p>A significant single type of expenditure that covers many employees and departments.</p> <p>As a local government, this figure is often of particular interest to financial statement users.</p>	<p>Applied computer audit testing to analyze all payroll transactions in the year.</p> <p>Performed systems testing, tests of controls and analytical review of staff salary and levels.</p>	<p>All audit testing in this area was executed as planned and no issues were noted.</p>

Cash and Investments

Risk	Approach	Results
<p>Due to its nature, cash and investments are almost always considered to be a risk area in any audit.</p>	<p>We reviewed the yearend reconciliations and obtained third party confirmations.</p>	<p>All audit testing in this area was executed as planned and no issues were noted.</p>



SIGNIFICANT ACCOUNTING ESTIMATES

Management is responsible for determining the City's significant accounting policies. The choice between accounting policy alternatives can have a significant effect on the financial position and results of the organization. The application of those policies often involves significant estimates and judgments by management. Based on the audit work that we have performed, it is our opinion that the estimates in the financial statements are reasonable and the disclosures relating to accounting estimates are in accordance with Canadian public sector accounting standards.

ADJUSTED AND UNADJUSTED DIFFERENCES

We have disclosed all significant adjusted and unadjusted differences and disclosure omissions identified through the course of our audit engagement. Each of these items has been discussed with Management.

For purposes of our discussion, a summary of adjusted and unadjusted differences and disclosure omissions has been presented in Appendix C. No adjusted or unadjusted differences were noted for the year ended December 31, 2017.

MANAGEMENT REPRESENTATIONS

During the course of our audit, management made certain representations to us. These representations were verbal or written and therefore explicit, or they were implied through the financial statements. Management provided representations in response to specific queries from us, as well as unsolicited representations. Such representations were part of the evidence gathered by us to be able to draw reasonable conclusions on which to base our audit opinion. These representations were documented by including in the audit working papers memoranda of discussions with management and written representations received from management.

A summary of the representation we have requested from management is set out in the management representation letter included in Appendix D to the report.

FRAUD DISCUSSION

Canadian generally accepted auditing standards require us to discuss fraud risk with the Council on an annual basis. Further to the discussion held with the Council during the planning of our audit, we have prepared the following comments:

Required Discussion	BDO Response	Question to Council
Details of existing oversight processes with regards to fraud.	Based on our discussions during the planning of our audit, the Council's oversight processes include: <ul style="list-style-type: none"> • Council and Committee charters; • Discussions at Council meetings; • Review of related party transactions; and • Consideration of tone at the top. 	Are there any new processes or changes in existing processes relating to fraud since the date of our previous discussions, that we should be aware of?
Knowledge of actual, suspected or alleged fraud.	Currently, we are not aware of any actual, suspected or alleged fraud.	Are you aware of any instances of actual, suspected or alleged fraud affecting the City?

AUDITOR'S RESPONSIBILITIES FOR DETECTING FRAUD

We are responsible for planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by error or fraud.

The likelihood of not detecting a material misstatement resulting from fraud is higher than the likelihood of not detecting a material misstatement resulting from error, because fraud may involve collusion as well as sophisticated and carefully organized schemes designed to conceal it.

The scope of the work performed was substantially the same as that described in our Planning Report to Council dated September 25, 2017.



INTERNAL CONTROL MATTERS

During the course of our audit, we performed the following procedures with respect to 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.

The results of these procedures were considered in determining the extent and nature of substantive audit testing required.

We are required to report to you in writing, 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, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

As the purpose of the audit is for us to express an opinion on the City's financial statements, our audit cannot be expected to disclose all matters that may be of interest to you. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We have not identified any significant deficiencies in internal controls. Please see the attached Management Letter in Appendix E for operational improvement observations.

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 table below summarizes these additional required communications.

Required Communication	Audit Planning Presentation	Audit Results Presentation	Auditor Comments
1. Our responsibilities under Canadian Auditing Standards (CAS)	✓		Included in our engagement letter dated October 31, 2016
2. Our audit strategy and audit scope	✓		Included in our Planning Report dated September 25, 2017
3. Fraud risk factors	✓		Included in our Planning Report dated September 25, 2017
4. Going concern matters		✓	None.
5. Significant estimates or judgments		✓	See Page 9
6. Audit adjustments		✓	See Appendix C.
7. Unadjusted differences		✓	See Appendix C.
8. Omitted disclosures		✓	None noted.
9. Disagreements with management		✓	There were no disagreements with management.
10. Consultations with other accountants or experts		✓	No external experts were consulted during this engagement.
11. Major issues discussed with management in regards to retention		✓	None.
12. Significant difficulties encountered during the audit		✓	No significant difficulties were encountered during our audit.
13. Significant deficiencies in internal control		✓	No significant deficiencies were noted.
14. Material written communication between BDO and management		✓	No material written communications were noted.
15. Any relationships which may affect our independence	✓	✓	No independence issues noted.

Required Communication	Audit Planning Presentation	Audit Results Presentation	Auditor Comments
16. Any illegal acts identified during the audit		✓	No illegal activities identified through the audit process.
17. Any fraud or possible fraudulent acts identified during the audit	✓	✓	No fraud identified through the audit process.
18. Significant transactions with related parties not consistent with ordinary business operations		✓	None noted.
19. Non-compliance with laws or regulations identified during the audit		✓	No legal or regulatory non-compliance matters were noted as part of our audit.
20. Limitations of scope over our audit, if any		✓	None.
21. Written representations made by management		✓	See Appendix D.
22. Any modifications to our opinion, if required		✓	Please see our draft independent auditor's report included in Appendix A.



BDO RESOURCES

BDO is one of Canada's largest accounting services firms providing assurance and accounting, taxation, financial advisory, risk advisory, financial recovery and consulting services to a variety of publicly traded and privately held companies.

BDO serves its clients through 105 offices across Canada. As a member firm of BDO International Limited, BDO serves its multinational clients through a global network of over 1,100 offices in more than 100 countries. Commitment to knowledge and best practice sharing ensures that expertise is easily shared across our global network and common methodologies and information technology ensures efficient and effective service delivery to our clients.

Outlined below is a summary of certain BDO resources which may be of interest to the Audit Committee.

PUBLICATIONS

- [Local and Municipal Governments - BDO Insights](#)

TAX BULLETINS, ALERTS AND NEWSLETTERS

BDO's national tax department issues a number of bulletins, alerts and newsletters relating to corporate federal, personal, commodity, transfer pricing and international tax matters.

For additional information on tax matters and links to archived tax publications, please refer to the following link: [Tax Library | BDO Canada](#).

APPENDIX A - Draft Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

To the Mayor and Council of The Corporation of the City of Victoria

We have audited the accompanying financial statements of The Corporation of the City of Victoria, which comprise the Statement of Financial Position as at December 31, 2017, and the Statements of Operations, Change in Net Financial Assets and Cash Flow 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 and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 consolidated 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 and fair presentation of the consolidated 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 overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly in all material respects, the financial position of The Corporation of the City of Victoria as at December 31, 2017 and its results of operations, cash flows and changes in net financial assets for the year then ended, in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants
Victoria, British Columbia
DATE



APPENDIX B - Independence Update

April 11, 2018

Mayor and Council
The Corporation of the City of Victoria
1 Centennial Square
Victoria, BC V8W 1P6

Dear Members of Council:

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, 2017.

Canadian generally accepted auditing standards (GAAS) 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 Chartered Professional Accountants BC 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 have prepared the following comments to facilitate our discussion with you regarding independence matters arising since September 25, 2017, the date of our last letter.

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 September 25, 2017 to the date of this letter.

We hereby confirm that we are independent with respect to the City within the meaning of the Rules 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 Council, Management and others within the City and should not be used for any other purposes.

Yours truly,

A handwritten signature in black ink that reads 'Bill Cox'. The signature is written in a cursive style with a large initial 'B'.

Bill Cox, FCPA, FCA
Partner through a corporation
BDO Canada LLP
Chartered Professional Accountants

BC/mkn

APPENDIX C - Adjusted and Unadjusted Differences

SUMMARY OF UNADJUSTED DIFFERENCES

The following is a summary of uncorrected misstatements noted during the course of our audit engagement:

- There were no uncorrected misstatements found for the year ended December 31, 2017.

SUMMARY OF ADJUSTED DIFFERENCES

The following is a summary of differences that were corrected by management during the course of our audit engagement:

- There were no corrected misstatements found for the year ended December 31, 2017.

SUMMARY OF DISCLOSURE OMISSIONS

The following is a summary of disclosures that have not been made within the financial statements:

Disclosure Omission	Management's Response
No omissions of disclosure noted.	N/A



APPENDIX D - Representation Letter

[DATE OF FINANCIAL STATEMENT APPROVAL]

BDO Canada LLP
Chartered Professional Accountants
500 - 1803 Douglas Street
Victoria, BC V8T 5C3

This representation letter is provided in connection with your audit of the financial statements of The Corporation of the City of Victoria for the year ended December 31, 2017, 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 October 31, 2016, 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.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- 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.
- We have reviewed and approved all journal entries recommended by the auditors during the audit.

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.

Existence, Completeness and Valuation of Specific Financial Statement Balances

- There are no pledges or assignments of assets as security for liabilities except as disclosed in the financial statements.
- All financial instruments have been appropriately recognized and measured in accordance with Public sector accounting standards. Significant assumptions used in arriving at fair value of financial instruments are reasonable and appropriate in the circumstances.
- 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.



- The employee future benefit costs, assets and obligation have been determined, accounted for and disclosed in accordance with Canadian public sector accounting standards. The source data and plan provisions provided are complete and accurate. The plans included in the valuation are complete. The determination of the discount rate and the use of specific actuarial assumptions are our best estimate assumptions. We feel that the extrapolations are accurate and have properly reflected the effects of changes and events occurring subsequent to the most recent valuation that had a material effect on the extrapolation.

General Representations

- 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 City, except as disclosed in the financial statements.
- We have informed you of all outstanding and possible claims, whether or not they have been discussed with legal counsel. Since there are no outstanding or possible claims, no disclosure is required in the financial statements.
- We confirm that there are no derivatives or off-balance sheet financial instruments held at year end that have not been properly recorded or disclosed in the financial statements.
- We have disclosed to you all significant customers and/or suppliers of the organization who individually represent a significant volume of business with the organization. We are of the opinion that the volume of business (sales, services, purchases, borrowing and lending) done by the City with any one party is not of sufficient magnitude that discontinuance would have a material negative effect on the ongoing operations of the organization.
- There have been no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We confirm that operating segments are appropriately identified and disclosed in accordance with Canadian public sector accounting standards.
- No significant matters, other than those disclosed in the financial statements, have arisen that would require a restatement of the comparative financial statements.

We have disclosed to you all information related to current and historical properties owned by the City and confirm that there is no material liability to remediate properties to environmental standards.

Yours truly,

Signature

Position

Signature

Position



APPENDIX E - Management Letter

E-mail: bcox@bdo.ca

April 11, 2018

Susanne Thompson, CPA, CGA, Director of Finance
The Corporation of the City of Victoria
1 Centennial Square
Victoria, BC V8W 1P6

Dear Ms. Thompson:

RE: Auditor's Management Letter

As your external auditors we are engaged to provide an audit opinion on your year-end financial statements. An external audit requires testing of transactions and balances and review of those internal control systems upon which we may place reliance. A positive opinion on the financial statements does not necessarily mean that your internal control systems are all operating effectively. This is because we review only those internal control systems where we feel that failure in those systems could result in a material error on the financial statements. With those systems that we do review, our focus is on the assertions necessary to meet our financial statement audit objectives.

Our review of systems, transactions and balances as well as discussions with staff at various levels throughout the City gives us a unique insight into your operations. While conducting this work we make note of items that come to our attention where we feel that improvement could be made or alternatives could be considered. We are fortunate in that we work with a great number of clients and observe a wide variety of processes. We see firsthand any procedures that are emerging as best practices.

We are required to report to you in writing, 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, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

As matters come to our attention we make note of these for subsequent follow-up. For minor matters, we discuss directly with the staff involved. More important matters are brought forward in this letter (known as a management letter).

It is always worth noting that we almost always come up with points for all clients. The existence of points does not mean that there are significant problems with your systems or staff. They are just recommendations to make good systems better.

Current Year Recommendations

1. PerfectMind

In November 2017, the City completed the replacement of its recreation management system CLASS to PerfectMind, a project which required approximately one year to plan and implement. PerfectMind is a cloud based platform that tracks registrations and bookings, records revenues for financial reporting purposes, and is a point of sales system at City recreation centres. The City pays an annual fee for the right to use the platform.

Subsequent to implementation, it was noted that information summarized from PerfectMind was not suitable for financial reporting purposes, there was difficulties with credit card clearings, and other issues which have led to inefficiencies within the City. During our audit, we reviewed the implementation process and performed work over recreation revenues and did not note material errors or issues.

Management has been working hard to identify and remedy these issues as quickly as possible. We recommend that situation be monitored carefully to ensure implementation hiccups continue to be identified and resolved.

Management comments

Through a collaborative effort between Finance and Recreation, as part of a monitoring and feedback stage of the software implementation project, City staff have an ongoing process of reviewing the software functionality and procedures put in place and developing process enhancements to address issues identified. City staff continue to work with PerfectMind to put forward suggestions for service enhancements and fixes to address deficiencies of the reports being produced by the software. Additionally, City staff are communicating with other municipalities in BC that have implemented PerfectMind or are in the process of implementation, to benefit from shared learnings.

2. Environmental Sustainability

The topic of sustainability is top of mind for many organizations and stakeholders. As a publically accountable organization, residents of Victoria will be interested in the City's impact to the environment and its long-term sustainability goals. Communication about sustainability can include topics such as visions, goals, policies, and mandates over environmental activities, infrastructure plans, and emission volumes.

Being transparent about sustainability can lead to public buy-in for environmental capital initiatives as well as foster new relationships when it comes to public and private initiatives. Further, it creates accountability for the City to achieve and maintain sustainability goals and long-term targets.

We noted the City is actively engaged in topic of sustainability through its Climate Leadership Plan, Victoria Sustainability Framework, and Community Workshops. We recommend management consider further developing strategies in line with other local governments over public transparency and reporting of sustainability activities and metrics.



Management comments

The City is committed to being a global leader on sustainability and climate action. Recent achievements in this area include the creation of two new positions: Manager of Sustainability, Assets and Support Services, and Manager of Energy and Climate Action.

Our ongoing efforts include our draft Climate Leadership Plan (currently out for public comment). In addition, we are working on immediate upgrades to electric vehicle infrastructure in City parkades, and the development of Sustainable Waste Management and Sustainable Mobility strategies.

3. Rate increases in rental agreements

The City has multiple long-term rental agreements with external tenants. Certain agreements call for increases in rent during the term of the lease. We noted that the City accounts for rental revenue based on cash collected. Accounting standards require that rent revenues be recorded evenly during the life of the lease. Though this did not create a significant difference in the current year, incorrect accounting for large rental agreements in the future may result in material misstatements in revenue and deferred lease revenue.

Recommendation

We recommend the City review future lease agreements for step-increases in rent revenue and to account for revenues evenly over the term of the lease.

Management response

The amount currently reported matches the actual lease conditions and recognizes revenues in the year they are funding the related costs. Management believes the amount being reported is of more use to the financial statement users and, given the lack of material difference, the resources required to adjust the amounts would outweigh the value added to the financial statements. Management will review lease agreements and in the event that lease conditions include discounted amounts, Management will consider recording revenue evenly throughout the term of the lease.

Status of Prior Year Recommendations

1. Business Intelligence Reports

In our letter last year we noted that "Data analytics" are a much talked about new area in accounting and auditing. We were pleased to observe that the City has also brought in use of these tools and noted that staff have developed reports using Microsoft's Business Intelligence tools that will provide additional methods of controlling expenditures and commitments on a timely basis.

We applauded the use to date and recommended expanding use of this type of information in future.

2017 Update

In early 2017 the City continued to build on its Project Management Framework to incorporate the use of Business Intelligence for monthly and quarterly reporting for all key initiatives in the Operational Plan. This tool is open to both senior leadership and members of Council to provide regular updates on projects status. In late 2017, City staff rolled out plans to expand the reporting tool in 2018 to also include major capital programs as well as corporate initiatives that are underway to improve the efficiency and effectiveness of internal operations.

Permits and Inspections has a BI Dashboard which presents all active demolition permits requiring staff attention and identifies tasks in priority order so that staff know which tasks to address first in order to meet published service levels. This dashboard gives management and staff an overview of the entire division workload which is used to provide greater efficiency to better meet Service Level Objectives (SLO's).

The city is also launching a new open data platform and alongside that a BI Dashboard to help visualize the data in a way that's easier to understand allowing for quicker, more insightful interpretation of permit data and their trends.

2. Succession Planning

Last year we commented on the demographic shifts caused by "Baby Boomers" aging out of employment in the local government sector in British Columbia. We commented that the City is fortunate in that it does have experienced, but still reasonably young, staff in many key positions. Nevertheless, we felt that it was still important that succession planning be given a high priority.

We noted the following as key points for succession planning:

- identify at as an early a stage as possible in their career, those staff with potential to both stay with the City and to grow into more senior roles;
- plan as to how to assign greater responsibilities to those individuals;
- keep those staff engaged by providing them experience in key decisions; and
- ensure that leaders at the City have employee development as one of their top goals.

Management agrees with the audit recommendation. Currently there are no formal procedures, however succession planning considerations are informally part of operational planning and incorporated when any position is being posted. Development of formal succession plans across the organization is underway.

2017 Update

Succession planning continues to be incorporated as part of operational planning considerations and Management in all departments are supported by HR in this area.

3. Department approval of purchases

During our review of the purchase processes last year we noted that any employee can submit a request to a buyer to initiate a Request for Offer (RFO). RFO's are used for purchases between \$10,000 and \$50,000.

We recommended that any RFO's initiated by an employee be authorized in writing from an appropriate department manager before a buyer starts the RFO process, unless that employee already has purchasing authority and further that this authorization should be retained for further reference.

2017 Update

Management approval is now included as part of the COV requisition process.



4. Review of budget before purchases are made

As part of the RFO process, buyers will ensure there is appropriate authorization before initiating purchases. In addition, the buyers will ensure there is sufficient budget to make the purchase based on information received from financial analysts. However, we noted last year that there was no process in place to document the review of the budget by the financial analysts. Without formal documentation of the financial analyst's review of the budget, there is a risk that the RFO process is started without sufficient funding to pay for purchases.

2017 Update

Currently, there is a budget sign-off box that indicates budget review and acceptance - this is to be completed prior to RFO being posted. Budget is confirmed prior to the purchase being awarded.

A written recommendation (usually e-mail) from the department is used as an award recommendation letter. The City currently has a formal budget worksheet that is signed off before awarding RFPs and tenders. Budgets are now confirmed prior to issuing all competitions.

This communication is prepared solely for the information of management and those charged with governance and is not intended for any other purposes. We accept no responsibility to a third party who uses this communication.

We would like to express our appreciation for the co-operation and assistance which we received from the City's management during the course of the audit.

We are pleased to discuss with you further any matters mentioned in this letter at your convenience.

Yours truly,

A handwritten signature in black ink that reads 'Bill Cox'.

Bill Cox, FCPA, FCA
Partner through a corporation
BDO Canada LLP
Chartered Professional Accountants

BC/mkn

cc: Council