



Appendix B

CITY OF VICTORIA

FINAL REPORT TO THE COUNCIL

For the year ended December 31, 2018

Dated April 12, 2019 for presentation on April 25, 2019



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BDO Canada LLP
Suite 500
1803 Douglas Street
Victoria BC V8T 5C3

April 12, 2019
Members of Council
City of Victoria
1 Centennial Hall
Victoria, BC
V8W 1P6

Dear Members of Council:

We are pleased to present this 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, 2018. 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 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 Accountant

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SUMMARY



Status of the Audit

As of the date of this report, we have substantially completed our audit of the 2018 financial statements, pending completion of the following items:

- ▶ Receipt of signed management representation letter
- ▶ Subsequent events review through to financial statement approval date
- ▶ Approval of financial statements by Council.

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. See Appendix A for our draft independent auditor's report.



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.

The materiality level was set at \$2.7 million overall, based on 2% of the City's revenue, with a specific materiality level of \$9.5 million, based on 2% of the City's tangible capital assets, used for items related to infrastructure.

These two materiality levels are used to acknowledge the difference in the magnitude of the City's infrastructure and daily operations.



Audit Findings

Our audit focused on the risks specific to your operations and key accounts. Our discussion points below focus on key areas of audit focus:

- ▶ Management override of internal controls
- ▶ Cash and investments
- ▶ Staff salaries
- ▶ Tangible capital assets and accumulated amortization
- ▶ Employee future benefits
- ▶ Deferred revenue government grants
- ▶ Development cost charges



Internal Control Matters

We are required to report to you in writing, any significant deficiencies in internal control that we have identified.

There were no control deficiencies were noted that, in our opinion, are of significant importance to discuss with those charged with governance. However, please refer to Appendix D for the management letter which outlines recommendations over areas of operational improvement.



Independence

We are not aware of any relationships between the City and us that, in our professional judgment, may reasonably be thought to bear on our independence to date. Our annual communication confirming our independence is included as Appendix F.



Adjusted and Unadjusted Differences

We have disclosed all adjusted and unadjusted differences and disclosure omissions greater than 5% of materiality identified through the course of our audit engagement. Each of these items has been discussed with management.

Management has determined that the unadjusted differences are immaterial both individually and in aggregate to the financial statements taken as a whole. Should the Council agree with this assessment, we do not propose further adjustments.

For purposes of our discussion, a summary of adjusted and unadjusted differences and disclosure omissions has been presented in Appendix B.



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 them in the audit working papers, memoranda of discussions with management and written representations received from management.

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



Audit Scope

Auditing standards require auditors to document all significant manual and computer systems. Building on this, we focused much of our review of transaction streams using “tests of controls” (compliance procedures) in combination with substantive analytical procedures and detailed testing. Balances were tested using a combination of compliance procedures and substantive procedures (such as analysis of data and obtaining direct evidence as to the validity of the items).



Significant Audit 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 accounting policies and estimates in the financial statements are reasonable and the disclosures relating to accounting estimates are in accordance with Canadian public sector accounting standards.



Fraud Discussion

Through our planning process, and current and prior years’ audits, we have developed an understanding of your oversight processes. We are not currently aware of any fraud affecting the City.

If you are aware of changes to processes or are aware of any instances of actual, suspected or alleged fraud affecting the City, we request that you provide us with this information.

Please refer to the Auditor’s Consideration of Possible Fraud and Illegal Activities included in Appendix E to the report.

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

KEY AUDIT AREAS

The following key audit areas were identified based on our knowledge of the City's operations, our past experience, and knowledge gained from management.

Management Override of Controls

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><i>This risk is required to be addressed for all audits pursuant to Canadian audit standards.</i></p>	<p>Tested the appropriateness of journal entries recorded in the general ledger, review key estimates 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 with no issues to be reported.</p>

Cash and Investments

Key Audit Area	Approach	Results
<p>Cash planning and investment management are important aspects of good financial controls.</p> <p>Due to its nature, cash and investments are almost always considered to be a risk area in any audit.</p>	<p>Reviewed the year-end reconciliations and obtained third party confirmations.</p> <p>Considered the risk of impairment over investments.</p>	<p>All audit testing in this area was executed as planned with no issues to be reported.</p>

Staff Salaries

Key Audit Area	Approach	Results
<p>A significant type of expenditures that covers many employees and departments. As a municipality, this figure is often of particular interest to financial statement users (ratepayers).</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>Reviewed the consistency and appropriateness of the allocations to segments.</p> <p>Reviewed for payments made to key City personnel to assess their appropriateness.</p>	<p>All audit testing in this area was executed as planned with no issues to be reported.</p>

Tangible Capital Assets

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 much estimation and reliance on actuarial experts, therefore significant judgement is used in determining employee future benefits.</p>	<p>Reviewed actuarial reports and audited the significant assumptions.</p> <p>Directly communicated with the external actuaries.</p> <p>Reviewed the underlying data provided to the actuary for accuracy and completeness.</p> <p>Reviewed the appropriateness of financial statement disclosure.</p>	<p>All audit testing in this area was executed as planned with no issues to be reported.</p>

Revenue Recognition

Key Audit Area	Approach	Results
<p>Accounting standards in this area and are complex and open to interpretation. There is a risk that revenue may be incorrectly deferred into future periods or recognized before stipulations have been met.</p> <p><i>This risk is required to be addressed for all audits pursuant to Canadian audit standards.</i></p>	<p>Confirmed grant funding received through a review of the agreements, ensuring that the amounts recorded exist, are complete and are recorded accurately.</p> <p>Reviewed any stipulations in the agreement to ensure revenue was recognized when stipulations were met.</p> <p>Other revenue streams were reviewed in accordance with the latest revenue recognition standards.</p>	<p>All audit testing in this area was executed as planned with no issues to be reported.</p>

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 determined to be 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.

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

Deficiency	Issue and Impact
None noted	None noted

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 Results Presentation	Auditor Comments
1. Our responsibilities under Canadian Auditing Standards (CAS)	✓	Included in our engagement letter dated March 12, 2019
2. Our audit strategy and audit scope	✓	See Page 5
3. Fraud risk factors	✓	See Page 5
4. Going concern matters	✓	None noted
5. Significant estimates or judgments	✓	See Page 9
6. Audit adjustments	✓	See Appendix B
7. Unadjusted differences	✓	See Appendix B
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

Required Communication	Audit Results Presentation	Auditor Comments
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	✓	See Appendix F
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 C
22. Any modifications to our opinion, if required	✓	Please see our draft independent auditor's report included in Appendix A

APPENDIX A: INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report

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

Opinion

We have audited the financial statements of The Corporation of the City of Victoria, which comprise the Statement of Financial Position as at December 31, 2018, the Statements of Operations, Change in Net Financial Assets and Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2018, and its results of operations, changes in net financial assets, and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the City's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the City or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the City's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the City to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the City to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the City audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

CHARTERED PROFESSIONAL ACCOUNTANTS

Victoria, British Columbia
April 25, 2019

APPENDIX B: ADJUSTED AND UNADJUSTED DIFFERENCES

SUMMARY OF ADJUSTED DIFFERENCES

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

	Dr. (Cr.)			
	Assets	Liabilities	Accumulated Surplus	Annual Surplus
Reclassification of deposit payable from accounts payable to deposits	\$ -	\$ 1,892,000 (1,892,000)	\$ -	\$ -
Total Adjusted Differences	\$ -	\$ -	\$ -	\$ -

SUMMARY OF UNADJUSTED DIFFERENCES

There were no unadjusted differences noted during the course of our audit engagement.

SUMMARY OF DISCLOSURE OMISSIONS

There were no material disclosure omissions noted during the course of our audit engagement.

APPENDIX C: REPRESENTATION LETTER

City of Victoria

April 25, 2019

BDO Canada LLP
Chartered Professional Accountants
Suite 500
1830 Douglas Street
Victoria, BC
V8T 5C3

This representation letter is provided in connection with your audit of the financial statements of City of Victoria for the year ended December 31, 2018, 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.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter.
- We have reviewed and approved all journal entries recommended by the practitioners during the review.

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

- 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

- 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 version of the document(s) comprising the annual report.

Yours truly,

Signature

Position

Signature

Position

APPENDIX D: MANAGEMENT LETTER

April 11, 2019

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. Indirect taxation

As can be expected given the aging of the "Baby Boomers", the City is experiencing staff turnover in various positions throughout the organization. (We have commented on the need for thoughtful succession planning in earlier letters). Changeover of staff has both positives and negatives - it does allow for creativity and opportunity for improving procedures; but on the other hand, there is a loss of "corporate memory". Proper charging of GST/PST (aka "indirect taxes") on invoicing is an area where staff change could have unexpected implications.

We specifically mention treatment of indirect taxes on invoicing for two reasons. First, it is a very complex area for local governments and is fraught with arcane rules that can cost the City money if not handled properly. Second, we understand that the City is currently undergoing a best practices review of the invoicing system and it would make sense to consider indirect taxes as part of this review.

We recommend that the City look to both an upgrading/streamlining of processes related to charging of indirect taxes and documentation of current practice (including all arcane and unusual rules) so as to capture as much of the current “corporate memory” as possible in this area prior to future transitions.

Management comments

The City has in prior years proactively invited external experts to inform the system setup of indirect taxes. Changes to Provincial consumer taxation over the past 10 years have provided opportunities to review and update the system setup. Staff are currently in the process of reviewing and testing improvements to streamline invoicing processes. This process review includes improving internal documentation to ensure consistent application of indirect tax legislation and provides the opportunity to share this knowledge with all applicable areas of the organization.

2. Council Work Plans

Council is quite aware that the 2018 British Columbia municipal elections resulted in one of the highest ever incidence of new councilors and mayors throughout the province. This changeover has resulted in many municipal councils developing new, comprehensive and ambitious plans for their term.

The City is certainly a leader in this area with an ambitious strategic plan for 2019 - 2022. The plan is exciting since some of the objectives, such as Indigenous relations and reconciliation, climate change and health and well-being are not areas where local government often takes the lead.

We recognize that Council is faced with difficult funding decisions to achieve multiple objectives that are important for the community. However, we want to bring to your attention that in earlier letters we have commented on the importance of asset management and long-term capital planning. Managing and refreshing the infrastructure is one of the most important responsibilities of any local government, particularly in this age of “infrastructure deficit” which is endemic across North America. As such, we wanted to take the opportunity to remind of the importance of some of the traditional local government operational areas. Striving for ambitious plans is exciting and will benefit the community, as long as this is balanced with other important areas, such as infrastructure management to avoid the unintended consequence of infrastructure failures.

Management comments

The City has a number of policies and practices in place to support consideration of the balance of demand for new initiatives with core service delivery requirements, including asset management and capital planning.

Balancing core services delivery with new initiatives is addressed in new Council orientation and the City's policies and practices have foundation principles to support continual awareness.

City staff are mindful that a complete picture is required for informed decision making and strive to incorporate this in presentations to Council.

The following City practices support awareness of long-term capital planning:

- *The Financial Plan process identifies the City's asset management plans and funding sources.*
 - *Each year, the Council report accompanying the Plan outlines gaps in infrastructure funding as well as those asset groups that have reached sustainable funding levels. The 2019 report identified gaps for*

facilities, fleet, and roads. Master planning activities for those asset groups are underway and will provide important information for future financial planning processes.

- *The 2019 Financial Plan increased ongoing funding for roads infrastructure.*
- *The Financial Sustainability Policy includes:*
 - *Annual increases to reserves from new tax revenue from new assessment. Each year, an additional \$500,000 is transferred to reserve. The City has increased its annual funding to over \$7 million from \$1.5 million in 1999.*
 - *Consideration of increasing property taxes to fund capital projects. Since 1999, this annual funding has increased from \$2.5 million to over \$11 million.*
- *When cost savings and efficiencies are found, the identified savings are transferred to reserves to be available for future funding needs - for example, savings by implementing LED streetlights are set aside in the Climate Action Reserve.*
- *Through the Financial Planning process, each year Council allocates new property tax revenue from new development and operating surplus amounts to various initiatives. Many years, Council chooses to allocate to reserves and typically any remaining amounts after funding initiatives are transferred to reserves. In 2019, Council approved additional resources for asset management with funding from new tax revenue from new assessment.*
- *The City's project management framework aims to tie all relevant projects into a single coherent system using principles of full lifecycle management and sustainability, and closely monitors accountability to project budget.*

Status of Prior Year Recommendations

1. PerfectMind Recreation System Software

In our letter last year we had noted that in November 2017, the City completed the replacement of its recreation management system CLASS to PerfectMind. Subsequent to implementation, it was noted that information summarized from PerfectMind was not suitable for financial reporting purposes

We recommended that the structural set up that was leading to these differences should be investigated and corrected.

2018 Update

We are pleased to report that the issues discussed above were largely resolved during the year.

Management's comments

Staff continue to work with PerfectMind recreation software to identify best practices and business process improvements for financial reporting tools.

2. Environmental Sustainability

Last year we commented on how the topic of sustainability is top of mind for many organizations and stakeholders, and that 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.

We noted that the City was (and continues to be) actively engaged in the topic of sustainability through its Climate Leadership Plan, Victoria Sustainability Framework, and Community Workshops. We recommended that management consider further developing strategies in line with other local governments over public transparency and reporting of sustainability activities and metrics.

2018 Update

We are pleased to report that the City has completed and released its climate leadership plan, which includes specific goals and implementation strategies. We commend Management and Council for their efforts.

We recommend that management continue to monitor progress and adjust the goals and implementation strategies as appropriate.

Management comments

The City is advancing its Climate Leadership Plan including the building retrofit strategy, the electric vehicle strategy, and corporate energy and emissions management. The City's requirements for new buildings to meet energy performance targets in the BC Energy Step Code came into effect on November 1, 2018. The City also began development of a solid waste management strategy to guide waste reduction efforts across the community and organization.

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 at present, incorrect accounting for large rental agreements in the future may result in material misstatements in revenue and deferred lease revenue. We recommended the City review future lease agreements for step-increases in rent revenue and to account for revenues evenly over the term of the lease.

2018 Update

Operating leases continue to be accounted for based on cash collected, but differences remain immaterial.

Management comments

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.

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". The signature is written in a cursive, flowing style.

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

BC/jaw

cc: Council

APPENDIX E: AUDITOR'S CONSIDERATIONS OF POSSIBLE FRAUD AND ILLEGAL ACTIVITIES

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, by:

- ▶ Identifying and assessing the risks of material misstatement due to fraud;
- ▶ Obtaining sufficient and appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- ▶ Responding appropriately to fraud or suspected fraud identified during the audit.

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.

During the audit, we performed risk assessment procedures and related activities to obtain an understanding of the City and its environment, including the City's internal control, to obtain information for use in identifying the risks of material misstatement due to fraud and made inquiries of management regarding:

- ▶ Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments;
- ▶ Management's process for identifying and responding to the risks of fraud in the City, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist;
- ▶ Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud at the City; and
- ▶ Management's communication, if any, to employees regarding its view on business practices and ethical behaviour.

In response to our risk assessment and our inquiries of management, we performed procedures to address the assessed risks, which may have included:

- ▶ Inquired of management, Council, and others related to any knowledge of fraud, suspected fraud or alleged fraud;
- ▶ Performed disaggregated analytical procedures and consider unusual or unexpected relationships identified in the planning of our audit;
- ▶ Incorporated an element of unpredictability in the selection of the nature, timing and extent of our audit procedures; and
- ▶ Performed additional required procedures to address the risk of management's override of controls including:
 - Testing internal controls designed to prevent and detect fraud;
 - Testing the appropriateness of a sample of adjusting journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud;
 - Reviewing accounting estimates for biases that could result in material misstatements due to fraud, including a retrospective review of significant prior years' estimates; and
 - Evaluated the business rationale for significant unusual transactions.

APPENDIX F: INDEPENDENCE

April 12, 2019

Dear Council Members:

At the core of the provision of external audit services is the concept of independence. We are communicating all relationships between BDO Canada LLP and its related entities and the Corporation of the City of Victoria that, in our professional judgment, may reasonably be thought to have influenced our independence during the audit.

In determining which relationships to report, we have considered the applicable legislation and relevant rules of professional conduct and related interpretations prescribed by the Chartered Professional Accountants of British Columbia covering such matters as the following:

- 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.

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

We are not aware of any relationships between the City and us that, in our professional judgment, may reasonably be thought to bear on our independence to date.

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 communication is intended solely for the use of Council, management and others with the City and should not be used for any other purposes.

Yours truly,



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

BC/jaw