

# City of Victoria

Audit findings report to the Mayor and Council  
for the year ended December 31, 2022

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, 2022. This report should be read in conjunction with our planning report, dated September 22, 2022, which contains further information about our audit methodology, our responsibilities as auditors and the responsibilities of those charged with governance.

The enclosed final 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 12, 2022

For the year ended December 31, 2022



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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, 2022.

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.

Please refer to the draft financial statement package for a copy of our draft independent auditor's report.

## 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 22, 2022.

As communicated to you in our Planning Report, preliminary materiality for all items other than infrastructure was set at \$6.5m and materiality for infrastructure was set at \$12.3m. These levels are based on expenses and tangible capital assets, respectively, and have not changed through the course of our audit.

## Independence & Professional Ethics

Our Independence Letter is included in [Appendix A](#).

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.

## Auditor's Responsibility With Respect To Fraud

Our responsibilities with respect to fraud were communicated in our Planning Report to the Mayor and Council dated September 22, 2022.

We are not aware of any fraud affecting the City. If you have become aware of changes to processes or are aware of any instances of actual, suspected, or alleged fraud since our discussions held at planning, please let us know.





## 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. A summary of the key discussion points are below:

Financial statement areas	Risks noted	Audit findings
<b>Risk of Fraudulent Revenue Recognition</b> <i>[Rebuttable presumption]</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.	We 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.
<b>Recognition of Grant &amp; Government Transfer Revenue</b>	Nevertheless, 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.	We verified a sample of cash receipts in connection with the government transfer revenue recognized.  <b>All audit testing was performed in this area as planned with no issues to report.</b>
<b>Management Override of Internal Controls</b> <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.	We reviewed transactions recorded in the various ledgers for unusual or non-recurring adjustments not addressed by other audit procedures.  We reviewed the controls relating to the processing of journal entries and examined a sample of journal entries.  <b>All audit testing was performed in this area as planned with no issues to report.</b>



# 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, are of significant importance to discuss.

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.



# Audit differences

## Audit differences

We have not identified any audit differences through the course of our audit.

## Disclosure omissions

We have not identified any material disclosure omissions.



## 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
Potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.	None noted.
Material uncertainties related to events and conditions that may cast significant doubt on the City's ability to continue as a going concern.	None noted.
Disagreements with management about matters that, individually or in the aggregate, could be significant to the City's financial statements or our audit report.	None noted.
Matters involving non-compliance with laws and regulations.	None noted.
Significant related party transactions that are not in the normal course of operations and which involve significant judgments made by management concerning measurement or disclosure.	None noted.
Management consultation with other accountants about significant auditing and accounting matters.	None noted.





# Appendices

- ▶ [Appendix A: Independence letter](#)
- ▶ [Appendix B: Representation letter](#)
- ▶ [Appendix C: Changes in Accounting standards with impact to the City](#)



# Appendix A: Independence letter



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BDO Canada LLP  
1100 Royal Centre  
1055 West Georgia Street  
Vancouver, British Columbia  
V6E 3P3

April 12, 2023

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, 2022.

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 have prepared the following comments to facilitate our discussion with you regarding independence matters arising since April 11, 2022, 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 April 11, 2022, 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





## Appendix B: Representation letter

## **REPORT DATE**

BDO Canada LLP  
1100 Royal Centre  
1055 West Georgia Street  
Vancouver, BC, 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, 2022, 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 December 14, 2020, 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.
- No adjusted or unadjusted audit differences were raised in connection with the audit of the financial statements.

### **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 version of the document(s) comprising the annual report.
- We do not believe that the City will suffer material damages in connection with the legal action of the Estate of Sayaka Yanai, Deceased v. Robert Scott Roberts and Hermsen Construction Ltd., and Third Parties, City of Victoria and City of Saanich.
- We are satisfied that all conditions precedent in the land swap agreement with School District 61 were satisfied as specified in the agreement.
- We have considered and agree with the assumptions made by Hub International Limited - the actuarial firm that we engaged to provide an evaluation of our employee future benefit liability.

Yours truly,

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Susanne Thompson, Deputy City Manager & CFO

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Raymond Lin, Manager of Accounting

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Layla Monk, Manager of Revenue

# Appendix C: Changes in accounting standards with impact to the City

## Appendix C: Changes in Accounting standards with impact to the City

The following summarizes the status of new standards and the changes to existing standards, confirmed by the Public Sector Accounting Board (PSAB), as of fall of 2022. Also included is PSAB's current roadmap for future improvements to Public Sector Accounting Standards (PSAS).

### **PSAS 3280, Asset Retirement Obligations** (effective years beginning on or after April 1, 2022)

This new Section establishes standards on how to account for and report a liability for asset retirement obligations. The main features of the new Section are:

- An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset.
- Asset retirement costs associated with a tangible capital asset controlled by the entity increase the carrying amount of the related tangible capital asset (or a component thereof) and are expensed in a rational and systematic manner.
- Asset retirement costs associated with an asset no longer in productive use are expensed.
- Measurement of a liability for an asset retirement obligation should result in the best estimate of the amount required to retire a tangible capital asset (or a component thereof) at the financial statement date.
- Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset (or a component thereof), or an expense, depending on the nature of the re-measurement and whether the asset remains in productive use.
- A present value technique is often the best method with which to estimate the liability.
- As a consequence of the issuance of Section PS 3280:
  - editorial changes have been made to other standards; and
  - Section PS 3270, Solid Waste Landfill Closure and Post-Closure Liability has been withdrawn.

This Section applies to fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.

Section PS 3270 will remain in effect until the adoption of Section PS 3280 for fiscal periods beginning on or after April 1, 2022, unless a public sector entity elects earlier adoption.

This is one of the most significant new standards in years and will require considerable staff time in most entities to prepare for compliance.



## Appendix C: Changes in Accounting standards with impact to the City

### **PSAS 3450, Financial Instruments** (effective years beginning on or after April 1, 2022)

This new Section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

The main features of the new Section are:

- Items within the scope of the Section are assigned to one of two measurement categories: fair value, or cost or amortized cost.
- Almost all derivatives, including embedded derivatives that are not closely related to the host contract, are measured at fair value.
- Fair value measurement also applies to portfolio investments in equity instruments that are quoted in an active market.
- Other financial assets and financial liabilities are generally measured at cost or amortized cost.
- Until an item is derecognized, gains and losses arising due to fair value re-measurement are reported in the statement of re-measurement gains and losses.
- Budget-to-actual comparisons are not required within the statement of re-measurement gains and losses.
- When the reporting entity defines and implements a risk management or investment strategy to manage and evaluate the performance of a group of financial assets, financial liabilities or both on a fair value basis, the entity may elect to include these items in the fair value category.
- New requirements clarify when financial liabilities are derecognized.
- The offsetting of a financial liability and a financial asset is prohibited in absence of a legally enforceable right to set off the recognized amounts and an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.
- New disclosure requirements of items reported on and the nature and extent of risks arising from financial instruments.

The new requirements are to be applied at the same time as PS 2601, Foreign Currency Translation and are effective for fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted. This Standard should be adopted with prospective application except for an accounting policy related to embed derivatives within contracts, which can be applied retroactively or prospectively.

### **PSAS 3450, Financial Instruments Narrow Scope Amendments** (effective years beginning on or after April 1, 2022)

As the name implies, these amendments are quite narrow in scope and will not impact many entities.

The amendments are intended to:

- clarify how to deal with financial instruments intended to maintain orderly conditions for the circulation of the Canadian dollar (will impact Federal Government only)
- change treatment of bond repurchases such that will not always be an immediate extinguishment of debt
- clarifies and simplifies certain transitional provisions

An Exposure Draft was issued in January 2019 and a Final Standard was issued in March 2020.



## Appendix C: Changes in Accounting standards with impact to the City

### **PSAS 3041, Portfolio Investments** (effective years beginning on or after April 1, 2022)

This Section revises and replaces Section PS 3040, Portfolio Investments. The following changes have been made:

- The scope is expanded to include interests in pooled investment funds;
- Definitions are conformed to those in PS 3450, Financial Instruments;
- The requirement to apply the cost method is removed, as the recognition and measurement requirements within Section PS 3450 apply, other than to the initial recognition of an investment with significant concessionary terms; and
- Other terms and requirements are conformed to Section PS 3450, including use of the effective interest method.

The new requirements are effective for fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.

### **PSAS 3400, Revenue** (effective years beginning on or after April 1, 2023)

This section is related to revenue recognition principles that apply to revenues of governments and government organizations other than government transfers and tax revenue.

The Public Sector Accounting Handbook has two Sections that address two major sources of government revenues, government transfers and tax revenue. Revenues are defined in Section PS 1000, Financial Statement Concepts. Recognition and disclosure of revenues are described in general terms in Section PS 1201, Financial Statement Presentation.

This section addresses recognition, measurement and presentation of revenues that are common in the public sector. It is less complex than the comparable new IFRS standard, although generally consistent in philosophy.

This new Section will be effective for fiscal years beginning on or after April 1, 2023. Earlier adoption is permitted.

## Appendix C: Changes in Accounting standards with impact to the City

### PSAB's Draft 2022-2027 Strategic Plan

The Strategic Plan sets out the following broad strategic objectives that help guide PSAB in achieving its public interest mandate over a multi-year period:

- Develop relevant and high-quality accounting standards
- Enhance and strengthen relationships with stakeholders
- Enhance and strengthen relationships with other standard setters
- Support forward-looking accounting and reporting initiatives

The strategic plan is effective April 1, 2022 and can be found [here](#).