



# City of Victoria

Audit planning report to the Mayor and Council  
For the year ending December 31, 2023



START



**BDO**

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# To the Mayor and Council of the City of Victoria

We are pleased to provide you with this planning report to highlight and explain key issues we believe to be relevant to the audit of the financial statements of the City of Victoria (the “City”) for the year ending December 31, 2023.

The enclosed planning report includes our approach to your audit, the significant risks we have identified and the terms of our engagement. When we meet to discuss our audit findings, we will provide you with a copy of our draft audit opinion and discuss the nature, extent and results of our audit work. We will also report any significant internal control deficiencies identified during our audit and reconfirm our independence.

Our audit, and therefore this report, will not necessarily identify all matters that may be of interest to the Mayor and Council in fulfilling their responsibilities. This report has been prepared solely for the use of the Mayor and Council, and management of the City, 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 completing our audit work and discussing our findings 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

September 22, 2023

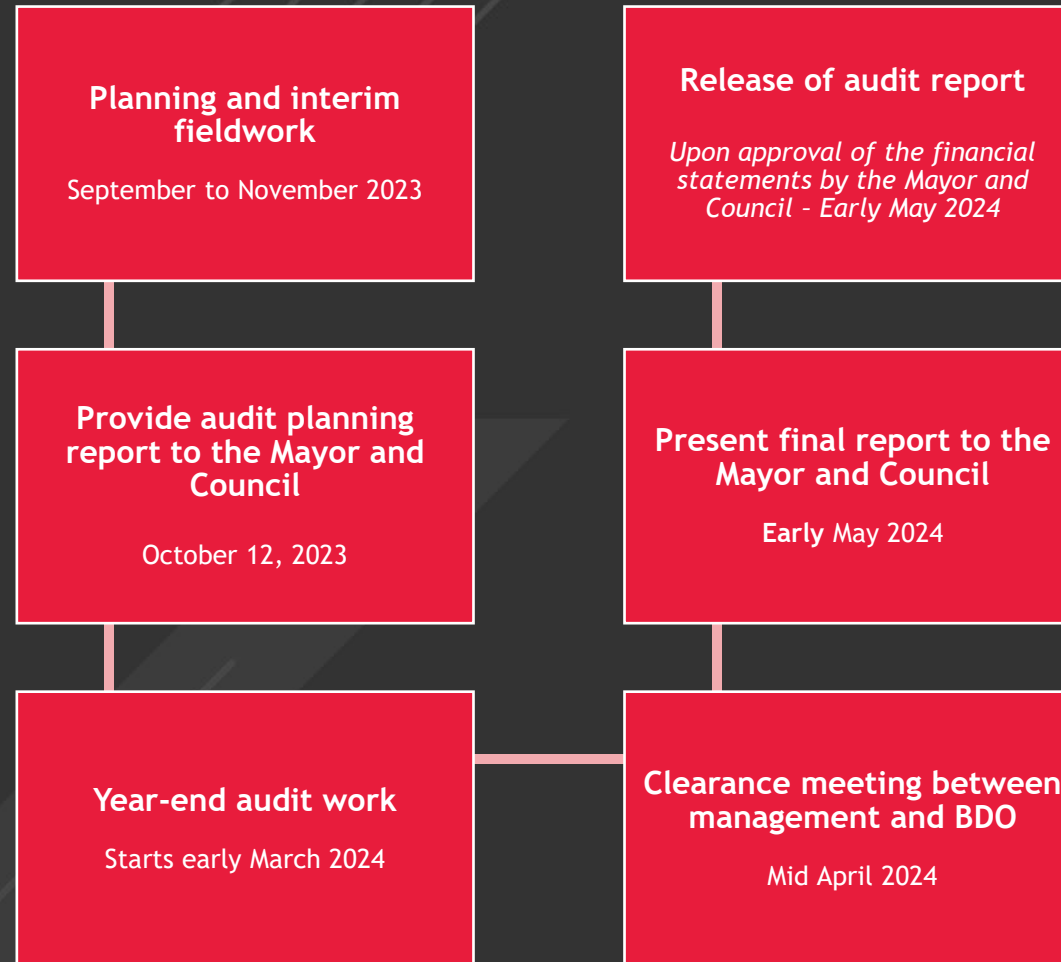


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# Audit timeline





## Your dedicated BDO audit team

In order to ensure effective communication between the Mayor and Council and BDO Canada LLP, the contact details of the engagement team are outlined below. We attempt to provide continuity of personnel within our client project teams to the greatest extent possible.

NAME	ROLE	PHONE NUMBER	EMAIL
Brian Szabo, CPA, CA	Engagement Partner	604.646.3389	bszabo@bdo.ca
Mario Piroddi, CPA, CA	Quality Review Partner	250.434.4062	mpiroddi@bdo.ca
Andrew Davies, CPA	Assurance Senior Manager	604.646.6221	andavies@bdo.ca
Darren Taylor, CPA, CA	Indirect Tax Partner	604.443.4725	dtaylor@bdo.ca



# Auditor's responsibilities: financial statements

We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management, with oversight by those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. The scope of our work, as confirmed in our engagement letter which has previously been provided, is set out below:

- ▶ Work with management towards the timely issuance of the financial statements.
- ▶ Provide timely and constructive management letters. This may include deficiencies in internal control identified during our audit.
- ▶ Present significant findings to the Mayor and Council including key audit and accounting issues, any significant deficiencies in internal control and any other significant matters arising from our work.



We are required to obtain an understanding of the system of internal control in place in order to consider the adequacy of these controls as a basis for the preparation of the financial statements, to determine whether adequate accounting records have been maintained and to assess the adequacy of these controls and records as a basis upon which to design and undertake our audit testing.

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

# Auditor's responsibilities: 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, 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.

Throughout our planning process, we perform 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 in the City; and
- ▶ Management's communication, if any, to employees regarding its view on business practices and ethical behavior.

We are not currently aware of any fraud affecting the City. If you are aware of any instances of actual, suspected, or alleged fraud, or change in fraud risk factors, please contact [Your dedicated BDO audit team](#).

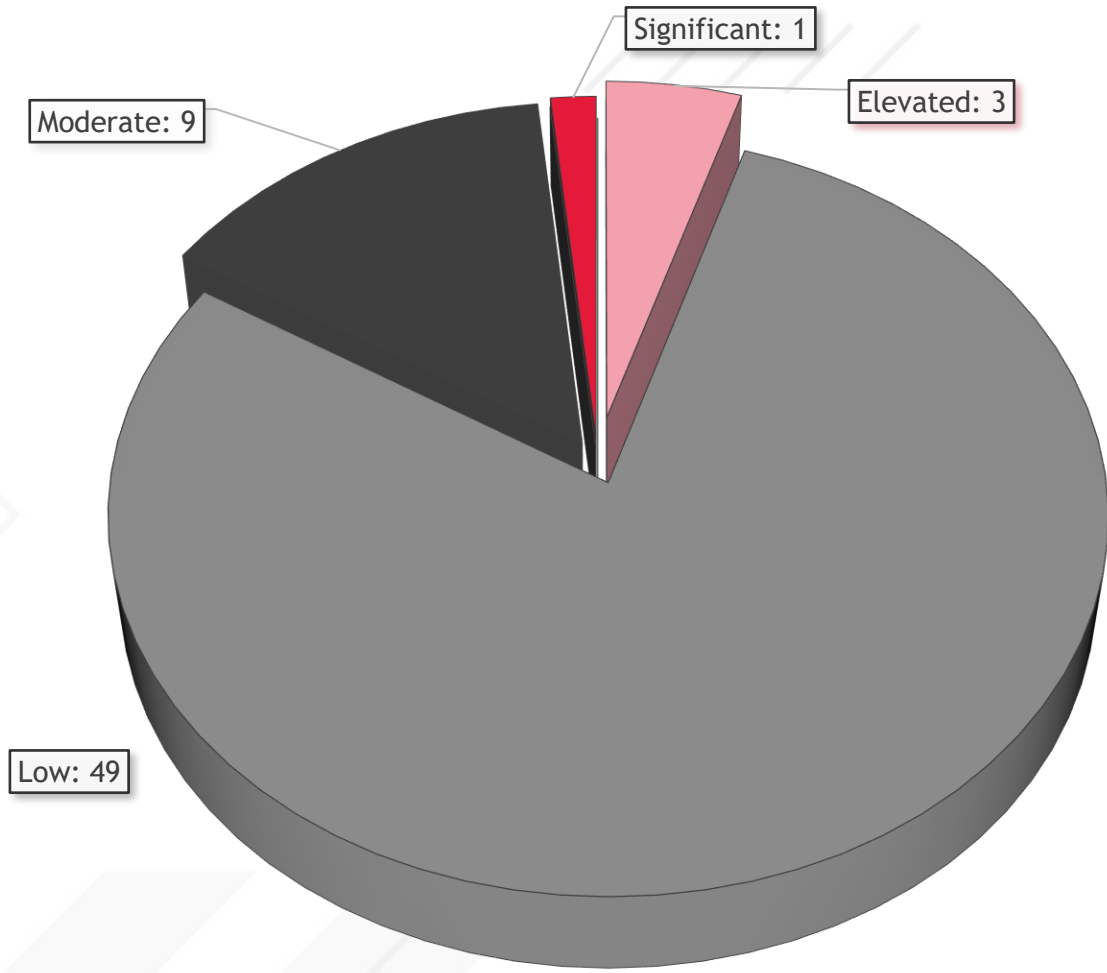
## Behind the audit report



Learn how we audit your financial statements

[SEE OUR PROCESS](#)

# Summary of Inherent risks identified & addressed



Total inherent risks identified and addressed: 63





# Audit risk areas and planned responses

Based on our knowledge of the City’s business, our past experience, and knowledge gained from management and Mayor and Council, we have identified the following significant and other notable audit risk areas that we wish to raise to your attention at this time. ***The risk assessment and planning phase of our engagement is ongoing. We will communicate any further significant risks that we identify in our audit findings report to Mayor and Council.***

Risks classified as significant arise due to a combination of: complex accounting rules, changes in operations or business lines, the extent of estimation and judgment involved in the financial statement area, and the existence of new accounting pronouncements. We request your input on these and any other areas of concern that you have identified.

Financial statement areas	Risks noted	Audit approach
<b>Management Override of Internal Controls</b> <i>[Mandatory significant risk]</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 present in all audits and not unique to the City.	Review the controls relating to the processing of journal entries.  Review transactions recorded in the various ledgers for unusual or non-recurring adjustments not addressed by other audit procedures.  Examine a sample of journal entries that are identified as having specific risk factors.

All risks classified as significant are described above. Risks classified as elevated and below are described on the following pages.



# Audit risk areas and planned responses

Financial statement areas	Risks noted	Audit approach
<b>Implementation of new accounting standard: PSAS 3280 Asset Retirement Obligations</b> <i>[Elevated risk]</i>	<p>The City is required to implement the new public sector accounting standard for asset retirement obligations (“AROs”) (PSAS 3280). This standard requires the recognition of liabilities for costs associated with activities that are legally required to be performed upon the retirement of an asset.</p> <p>As with the implementation of any new accounting standard there is an elevated risk due to the novel considerations that must be made. The considerations for PSAS 3280 are extensive: identifying potential AROs, assessing recognition of potential AROs, estimating the dollar amount to record for recognizable AROs, meeting disclosure requirements relating to AROs.</p>	<p>Discuss with management the processes used in identifying and ensuring the completeness of assets considered, assessing and valuing the recognized AROs, and generating the required disclosures. Review documentation of the work done in these processes and consider its sufficiency for the purpose.</p> <p>Review source documentation that provides the basis of estimated costs upon retirement, for a sample of AROs. Consider the reasonability of key assumptions made in the valuation of AROs. Verify the arithmetical accuracy of the ARO valuation calculations and the completeness of the resulting figures that are presented in the financial statements.</p>
<b>Implementation of new accounting standard: PSAS 3450 Financial Instruments</b> <i>[Elevated risk]</i>	<p>The City is required to implement the new public sector accounting standard for financial instruments (PSAS 3450). This standard increases the amount of considerations that must be made in the measurement basis used for financial instruments (such as investment instruments) and the extent of disclosure that is required around them.</p> <p>As with the implementation of any new accounting standard there is an elevated risk due to the novel considerations that must be made.</p>	<p>Review management’s memo and other analyses assessing the impact of this new accounting standard on the City’s financial statements.</p> <p>For each of the City’s material groupings of financial instruments, assess management’s selection of ‘measurement categories’, review source documentation to corroborate the valuation bases, and verify the arithmetical accuracy of any required valuation calculations.</p>
<b>Payroll input data</b> <i>[Elevated risk]</i>	<p>There is a risk that small errors in payroll data entry may result in significant errors in the financial statements. This is due to the systematic nature of the payroll stream where key data inputs are applied to a large population of individuals and transactions.</p>	<p>Test the operating effectiveness of controls over the entry of new payroll data.</p> <p>Examine a sample of pay rates and verify that they are in accordance with the relevant collective bargaining or other agreements.</p> <p>Analytically assess actual payroll expenses against the budgeted amounts.</p>



## Audit risk areas and planned responses

Financial statement areas	Risks noted	Audit approach
<b>Risk of Fraudulent Revenue Recognition</b> <i>[Presumption of fraud risk rebutted]</i>	<p>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.</p>	<p>Review a sample of funding agreements relating to both recognized and deferred revenue and verify that the recognition or deferral of revenue occurred in accordance with any stipulations present in the funding agreements.</p>
<b>Recognition of Grant &amp; Government Transfer Revenue</b> <i>[Normal risk]</i>	<p>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.</p>	<p>Verify a sample of cash receipts in connection with the government transfer revenue recognized.</p>
<b>Impact of collective bargaining</b> <i>[Normal risk]</i>	<p>The City is currently in the process of negotiating terms with unions where previous collective bargaining agreements have expired. The conclusion of these processes may impact the compensation-related liabilities on the City's financial statements. As the negotiations are currently ongoing there are variables that cannot yet be known. This uncertainty creates a risk in the measurement of the related liabilities.</p>	<p>Discuss with management the status of all collective bargaining processes. Gain an understanding of what new agreements have been struck and management's assessment of their impact on the financial statements.</p> <p>Review new collective bargaining agreements to corroborate management's assessment(s).</p>

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## ☰☰☰ Materiality

Materiality for financial statement amounts relating to operations is preliminarily set at \$7.3 million. Materiality for amounts relating to tangible capital assets is preliminarily set at \$12.8 million.

These materiality calculations are based on a combination of the City's prior year actual results and expectations for current year results. Materiality will be re-assessed throughout the audit process as the City's financial results become available, and as any audit adjustments are identified.

We will communicate any changes in materiality to the Mayor and Council as part of our final audit reporting materials.

Misstatements are considered to be material if they could reasonably be expected to influence the decisions of users based on the consolidated financial statements.

We will communicate all corrected and uncorrected misstatements identified during our audit to the Mayor and Council, other than those which we determine to be "clearly trivial."

We encourage management to correct any misstatements identified throughout the audit process.



# Using the work of others

## Experts engaged by management

To complete the audit of your financial statements, we will rely in part on the work of, and the report prepared by, George & Bell Consulting. This expert's work relates to the employee future benefits liability recognized by the City. Canadian generally accepted auditing standards require us to communicate with this expert. We propose to discuss the following with George & Bell Consulting:

- ▶ The objective and nature of our audit engagement and how we intend to use the expert's findings and report.
- ▶ Our assessment of the significant and risk aspects of the engagement that will affect the expert's work.
- ▶ The requirement to advise us if they have any relationship with the City which could impair their judgment or objectivity in the conduct of their engagement.
- ▶ The nature, timing and extent of the expert's work and our planned review of it, possibly including review of their working papers.
- ▶ Confirmation that the assumptions used in their calculations are consistent with those used in the prior periods and with industry standards.
- ▶ Their obligation to advise BDO Canada LLP of any matters up to the estimated audit report date that may affect their calculations and their report.

We ask that the appropriate level of management review the data provided to George & Bell Consulting, and that they also review the assumptions used and results reported by the expert.







# How we audit financial statements: Our six-step audit process

## IDENTIFY AND ASSESS RISK

Focus on those areas of financial statements that contain potential material misstatements as a consequence of the risks you face

## OBTAIN AUDIT EVIDENCE

Perform audit procedures while maintaining appropriate degree of professional skepticism, to conclude whether or not the financial statements are presented fairly

## REPORT

Communicate our opinion and details of matters on which we are required to report

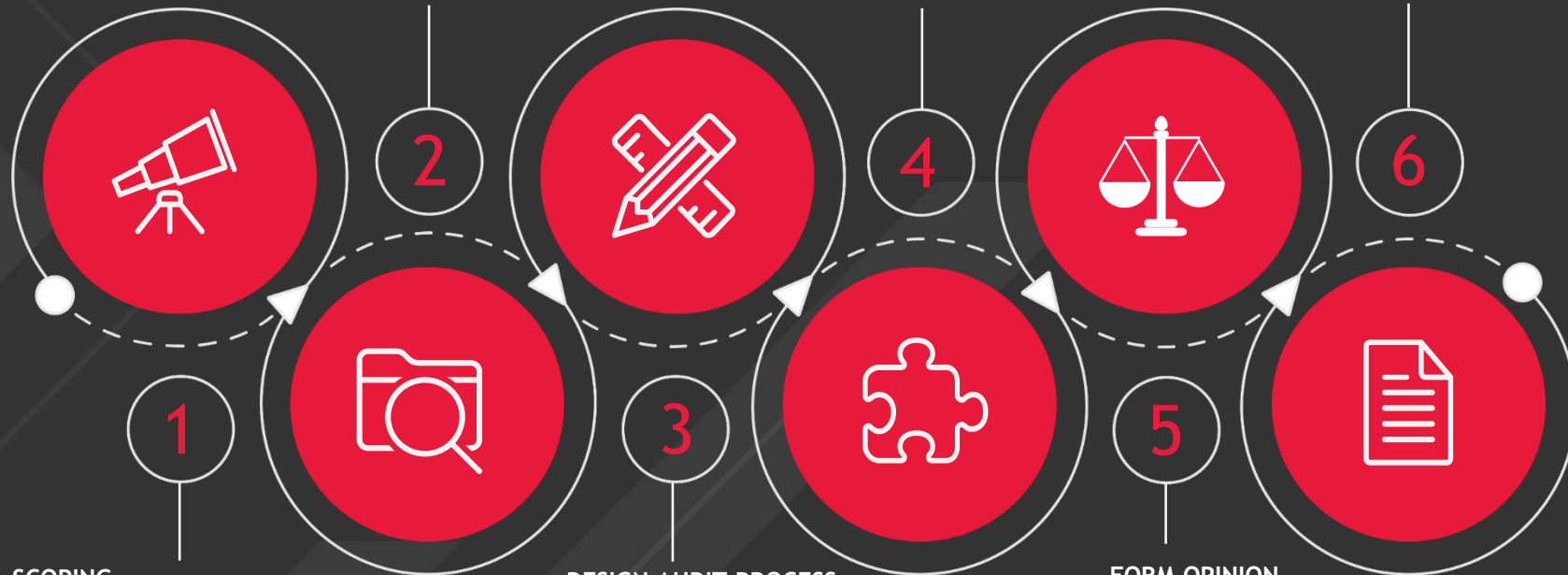
## New Standard for Audit Quality



## ISQM 1

The quality of an audit depends not only on the people conducting it—but also on the systems underpinning it. These new rules up the ante for your audit quality.

[SEE THE STANDARD](#)



## SCOPING

Complete a preliminary review to plan the audit, determine the materiality level, and define the audit scope

## DESIGN AUDIT PROCESS

Design an appropriate audit strategy to obtain sufficient assurance and enable us to report on the financial statements

## FORM OPINION

Evaluate whether we have enough evidence to conclude that the financial statements are free from material misstatement, and consider the effect of any potential misstatements found



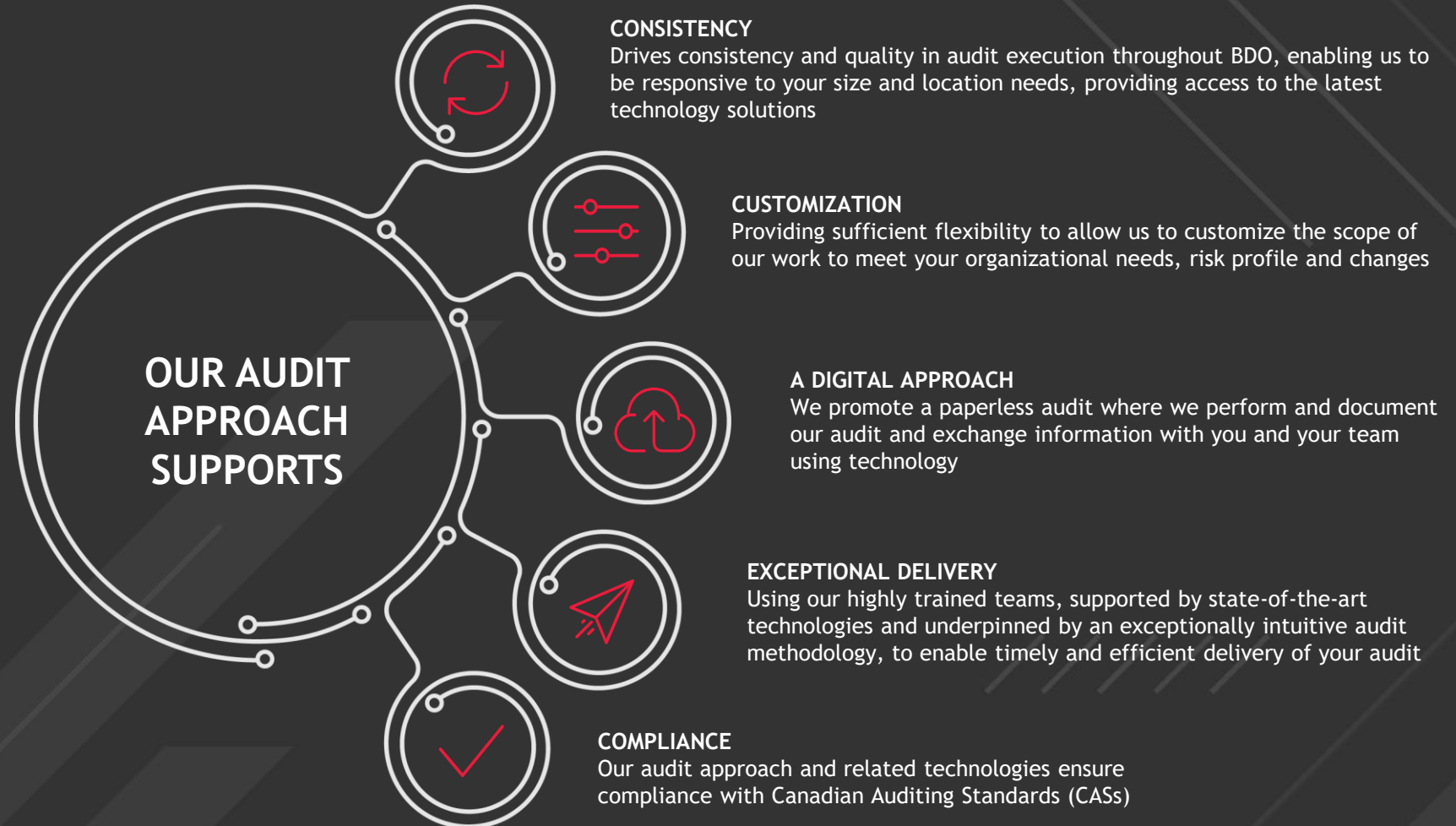
# How we audit financial statements: Responsiveness in action

The cornerstone of each audit engagement is how we deliver our services.

Our firm is deliberately structured to allow one partner to every six staff members. This means easy access to senior staff and the lead partner throughout your audit, as well as a quick turnaround on any questions. It also helps our team gain a better understanding of your organization.

Our audit process differs from the typical audit in our use of real-time reviews. The benefit of this is that final decision-makers are involved in issue resolution prior to the completion of the scheduled testing period.

We offer clients the full-service expertise of a national firm. Even more: As part of the global BDO network, we provide seamless and consistent cross-border services to clients with global needs. Yet we maintain a local community focus. The comprehensive range of services we deliver is complemented by a deep industry knowledge gained from nearly 100 years of working within local communities.





# Recommended resources: Public sector *Insights* articles

Leadership: Mental health resources to support your people



[READ THIS ARTICLE](#)

How to execute an effective public sector cloud migration strategy



[READ THIS ARTICLE](#)

Envisioning cloud migrations for public sector organizations



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