



City of Victoria

Audit findings report to the Mayor and Council
for the year ended December 31, 2023

START

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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, 2023. This report should be read in conjunction with our planning report, dated September 22, 2023, 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

April 18, 2024



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Audit at a glance

Status of the Audit

We have substantially completed our audit of the financial statements for the year ended December 31, 2023. Our audit will be complete, and the independent auditor's report available for release upon approval of the financial statements by council and receipt of a signed copy of management's representations letter.

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.

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.

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, 2023.

As communicated to you in our Planning Report, preliminary materiality for all items other than infrastructure was set at \$7.3m and materiality for infrastructure was set at \$12.8m. These levels are based on expenses and tangible capital assets, respectively, and have not changed through the course of our audit.

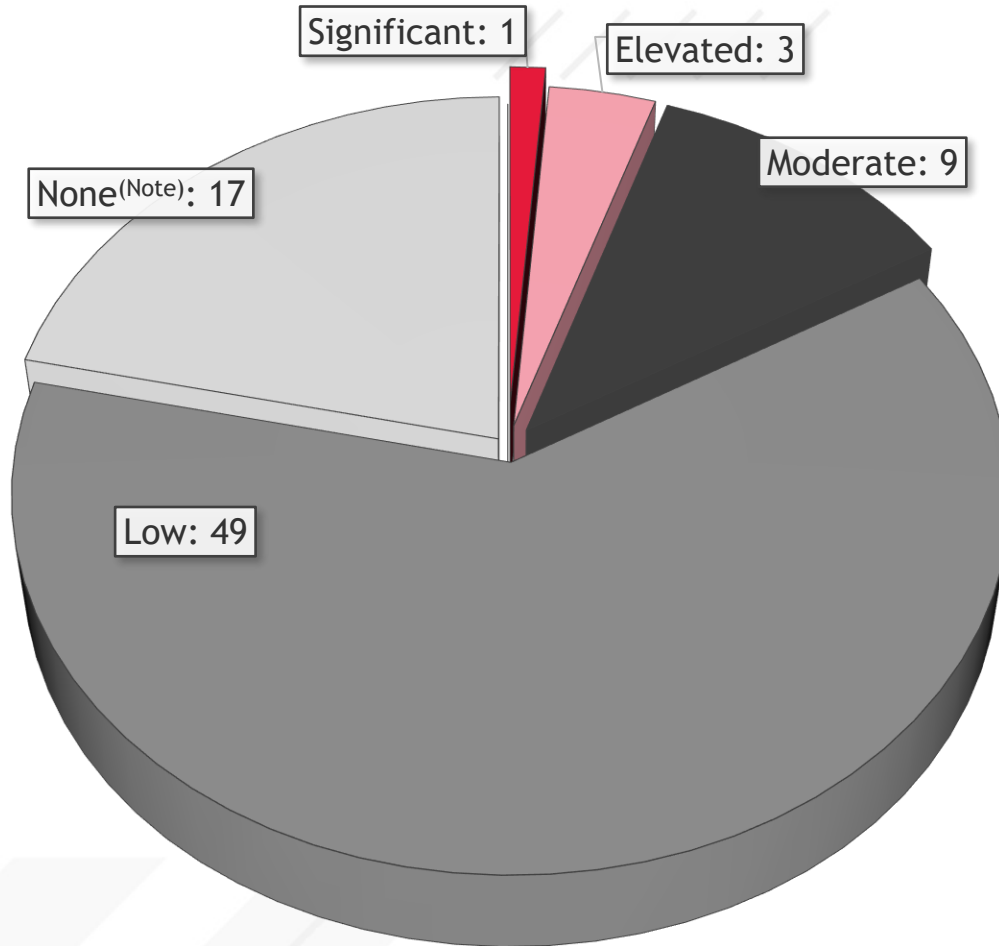
Auditor's Responsibility With Respect To Fraud

Our responsibilities with respect to fraud were communicated in our Planning Report to the Mayor and Council dated September 22, 2023.

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.



Summary of inherent risks identified and addressed



Total inherent risks identified and addressed: 79

Note

These are inherent risks identified where, due to a combination of inherent risk factors such as potential magnitude and likelihood, the audit risk is assessed as 'none'.



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

Findings relating to risks classified as significant are described above. Findings related to risks classified as elevated, moderate or low are described on the following pages.



Audit findings (continued)

Financial statement areas	Risks noted	Audit findings
<p>Implementation of new accounting standard: PSAS 3280 Asset Retirement Obligations <i>[Elevated risk]</i></p>	<p>The City implemented 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, and meeting disclosure requirements.</p>	<p>Reviewed the materials compiled by management and management’s external consultant, KPMG LLP, (the “implementation materials”) in the processes of identifying potential AROs, assessing and valuing the AROs that meet the recognition criteria, and generating the required disclosures. Considered the sufficiency of the work done for the purpose of this financial statement audit.</p> <p>Assessed the completeness of the AROs identified by considering the City’s asset pool alongside the implementation materials and reviewing the accounting-standards-recognition analyses performed. Inquired and investigated further where we identified additional potential AROs.</p> <p>Reviewed source documentation for the estimated costs upon retirement. Considered the reasonability of key assumptions made in the valuation of AROs. Verified the arithmetical accuracy of the ARO valuation calculations and the completeness of the resulting figures that are presented in the financial statements.</p> <p>All audit testing in this area was performed as planned. During this testing it was noted that AROs have been recorded for assets whose original estimated useful lives have passed, and are thus recognized with nil net book value, but which are still in use. Our understanding is that the actual retirement date of these assets is not imminent and therefore the remaining useful life estimates for these assets was and remains too low. See page 10 for further discussion of this matter.</p>
<p>Implementation of new accounting standard: PSAS 3450 Financial Instruments <i>[Elevated risk]</i></p>	<p>The City implemented the new public sector accounting standard for financial instruments (PSAS 3450). This standard increases the extent of considerations required to be made regarding the measurement basis applied 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>Reviewed management’s analysis of the impact of PSAS 3450 on the City’s financial statements. Where necessary, we assessed management’s selection of ‘measurement categories’, and reviewed source documentation to corroborate the valuation bases.</p> <p>Assessed the sufficiency of the new and revised disclosures made.</p> <p>All audit testing in this area was performed as planned with no issues to report.</p>



Audit findings (continued)

Financial statement areas	Risks noted	Audit findings
Payroll input data <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>Tested the operating effectiveness of controls over the entry of new payroll data.</p> <p>Examined a sample of pay rates and verified that they are in accordance with the relevant collective bargaining or other agreements.</p> <p>Analytically assessed actual payroll expenses against the budgeted amounts.</p> <p>All audit testing in this area was performed as planned with no issues to report.</p>
Risk of Fraudulent Revenue Recognition <i>[Presumption of fraud risk rebutted]</i>	<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>Reviewed 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>
Recognition of Grant & Government Transfer Revenue <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>Verified a sample of cash receipts in connection with the government transfer revenue recognized.</p> <p>All audit testing in this area was performed as planned with no issues to report.</p>
Impact of collective bargaining <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>Gained an understanding of the status of the City’s collective bargaining agreements that are in place, and ongoing negotiations for new agreements.</p> <p>Reviewed new collective bargaining agreements in the performance of audit testing for employee future benefit obligation and retro-pay accrual liabilities. Assessed the reasonableness of retro-pay accrual liabilities made, where collective bargaining negotiations are ongoing.</p> <p>All audit testing in this area was performed as planned with no issues to report.</p>



Audit differences

Unadjusted audit differences

During our testing over AROs it was noted that ARO liabilities have been recorded for assets whose original estimated useful lives have passed, and are thus recognized with nil net book value, but which are still in use. Our understanding is that the actual retirement date of these assets is not imminent and therefore the remaining useful life estimates for these assets was and remains too short. Correspondingly, the accumulated amortization expense previously recorded is likely overstated, with these assets' net book values thus understated. The amortization recorded for the ARO addition for these assets in the year was approximately \$1.4 million. Re-evaluation of these assets useful lives would be necessary to determine any adjustment to the amortization and net book value of the ARO.

However, the matter of actual use of assets exceeding their estimated useful lives for accounting is likely a matter that extends more broadly. This matter would be indicative of either the policy for initial estimates of useful lives being too low, or use of assets beyond their initial technical recommended use period and could indicate that increased funding for asset replacement is required. Investigation of this is beyond the scope of our audit.

Adjusted 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.



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 bring to your attention.

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

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

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



Other required communications

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

Issue	BDO response
Our responsibilities under Canadian Auditing Standards (CAS)	Included in our Engagement Letter dated November 3, 2023
Our audit strategy and audit scope	Included in our Planning Report dated September 22, 2023
Fraud risk factors	Included in our Planning Report dated September 22, 2023
Going concern matters	No matters requiring further communication.
Significant estimates or judgments	No matters requiring further communication.
Disagreements with management	No matters requiring further communication.
Consultations with other accountants or experts	<p>As described in our Planning Report dated September 22, 2023, we corresponded with and reviewed the work of George and Bell Consulting, who is the actuarial firm engaged by Management to value the City's Employee Future Benefits Liability. Subsequent to the issuance of our Planning Report we determined it would be necessary to review the work of KPMG LLP, who was engaged by Management to assist in the City's implementation of PSAS 3280 Asset Retirement Obligations.</p> <p>BDO did not engage or consult with any external experts for the purpose of this engagement.</p>



Other required communications

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

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



Appendices

- ▶ [Appendix A: Independence Letter](#)
- ▶ [Appendix B: Representation Letter](#)
- ▶ [Appendix C: Changes in Accounting standards with impact to the City](#)
- ▶ [Appendix D: System of Quality Management \(SoQM\)](#)



Appendix A: Independence Letter





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

April 18, 2024

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, 2023.

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

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

- Holding a financial interest, either directly or indirectly in a client;
- Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- Economic dependence on a client; and
- Provision of services in addition to the audit engagement.

We are not aware of any relationships between the City and our Firm that, in our professional judgment may reasonably be thought to bear on independence that have occurred from the date of our last letter on April 13, 2023, 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,

Chartered Professional Accountants



Appendix B: Representation Letter



City of Victoria
1 Centennial Square
Victoria BC
V8W 1P6

AUDIT REPORT DATE

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

This representation letter is provided in connection with your audit of the financial statements of City of Victoria for the year ended December 31, 2023, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with Canadian Public Sector Accounting Standards.

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

Financial Statements

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

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

- 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.

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.

Yours truly,

Susanne Thompson, Deputy City Manager & CFO

Raymond Lin, Manager of Accounting

Unadjusted audit differences

During our testing over AROs it was noted that ARO liabilities have been recorded for assets whose original estimated useful lives have passed, and are thus recognized with nil net book value, but which are still in use. Our understanding is that the actual retirement date of these assets is not imminent and therefore the remaining useful life estimates for these assets was and remains too short. Correspondingly, the accumulated amortization expense previously recorded is likely overstated, with these assets' net book values thus understated. The amortization recorded for the ARO addition for these assets in the year was approximately \$1.4 million. Re-evaluation of these assets useful lives would be necessary to determine any adjustment to the amortization and net book value of the ARO.

However, the matter of actual use of assets exceeding their estimated useful lives for accounting is likely a matter that extends more broadly. This matter would be indicative of either the policy for initial estimates of useful lives being too low, or use of assets beyond their initial technical recommended use period and could indicate that increased funding for asset replacement is required. Investigation of this is beyond the scope of our audit.



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

Public Sector Accounting Standards Update

A discussion of current and upcoming changes to public sector accounting standards can be found here: [PSAS Update - Sept 2023 - by BDO](#)

We wish to draw your attention to the introduction of PSAS 3400 (Revenue), which will be in effect for the City's year ending December 31, 2024. We anticipate that this new standard will require a moderate amount of work by the City to implement prior to the 2024 year-end reporting period. We would be happy to further advise the City in this matter.

PSAB's 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](#).



Appendix D: System of quality management (SoQM) How BDO's system supports our audit quality

The firm is committed to maintaining high standards of audit quality that meet stakeholders' expectations and serve the public interest. We foster a culture where audit quality is at the center of our strategy and priorities. All partners and staff are accountable for performing quality engagements and upholding professional ethics, values, and attitudes.

The firm invested significant time and resources to establish and operate a SoQM that complies with the requirements set out in Canadian Standard on Quality Management 1 - Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements (CSQM 1) as issued by the Auditing and Assurance Standards Board (AASB). The SoQM ensures the firm and its personnel meet professional standards, legal and regulatory requirements, and conduct engagements accordingly, with reports issued appropriately for the circumstances.

Taken together our system of quality management supports consistent performance of audit engagements by focusing on eight components that operate in an iterative and integrated manner. These include:



Standard for Audit Quality



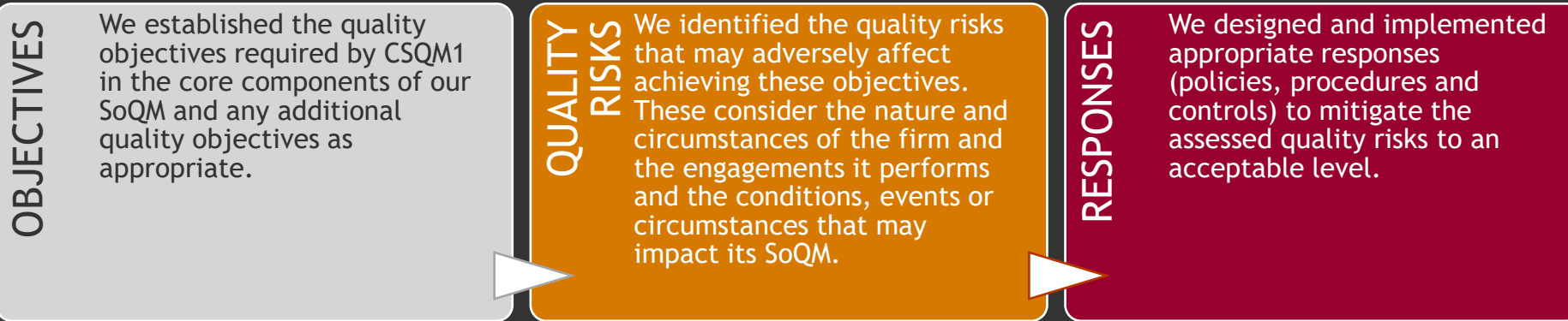
CSQM 1

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.



Appendix D: System of quality management (SoQM) How BDO establishes and improves our SoQM

In establishing and continuously improving our firm’s SoQM, we carried out the following for each of the SoQM components:



Evaluating SoQM:

Our annual SoQM evaluation involves reviewing information about the system’s design, implementation, and operation through monitoring activities. It includes testing response effectiveness, reviewing findings from inspections, and other relevant SoQM information. Using professional judgment, we assess whether identified findings represent deficiencies in the SoQM, investigating their root causes and evaluating their severity and pervasiveness.

MONITORING

We monitor the design, implementation and operating effectiveness of the firm’s SoQM to identify areas for improvement. Root cause analysis is performed on deficiencies identified and remedial actions are implemented on a timely basis. This robust monitoring and remediation process is important for continuous improvement in quality processes.

On at least an annual basis the firm evaluates whether these deficiencies have a severe and/or pervasive impact on the achievement of the quality objectives in the SoQM.

We identify emerging developments and changes in the circumstances of the firm or its engagements and adapt the SoQM to respond to such changes.