



cutting through complexity

AUDIT

# The Corporation of the City of Victoria

Audit Findings Report  
For the year ended December 31, 2014

*KPMG LLP*

April 14, 2015

[kpmg.ca](http://kpmg.ca)



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At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours.**

# Executive summary

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## Purpose of this report

The purpose of this Audit Findings Report is to assist you, as council members, in your review of the results of our audit of the financial statements of the City of Victoria as at and for the year ended December 31, 2014.

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## Materiality

We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. For the current period, we have determined a materiality of **\$3,750,000**.

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## Audit risks and results

As part of our audit planning, we identified **significant financial reporting** risks that, by their nature, require special audit consideration.

By focusing on these risks, we established an overall audit strategy and effectively targeted our audit procedures. We are satisfied that our audit work has appropriately dealt with the risks.

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## Critical accounting estimates

Overall, we are satisfied with the reasonability of **critical accounting estimates** taken. The most critical areas of estimates relate to: the amortization of tangible capital assets, estimates for contingent liabilities and estimates for employee future benefits.

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## Significant accounting policies and practices

There have been no changes to significant accounting policies and practices to bring to your attention.

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## Independence

We are independent with respect to the City, within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and applicable legislation or regulation.

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## Control and other observations

We did not identify any control deficiencies that we determined to be material weaknesses in ICFR.

# Executive summary (continued)

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## Finalizing the audit

As of April 14, 2015, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- completing our discussions with Council
- obtaining evidence of Council's acceptance of the financial statements
- obtaining the signed management representation letter
- completing subsequent event review procedures up to the date of Council approval of the financial statements, including updating our discussions with management regarding any changes to our understanding of legal matters.

We will update you on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

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## Audit adjustments and differences

We did not identify differences that remain uncorrected.

We identified adjustments that were communicated to management and subsequently corrected in the financial statements. Refer to Appendix 2 for Management's representation letter which includes a summary of corrected audit misstatements.

\* This Audit Findings Report should not be used for any other purpose or by anyone other than the Mayor and Council. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

# Audit risks and results

## Materiality

We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The determination of materiality requires judgment and is based on a combination of quantitative and qualitative assessments, including the nature of account balances and financial statement disclosures.

We determine performance materiality (from materiality) in order to assess risks of material misstatement and to determine the nature, timing and extent of audit procedures.

We determine an audit misstatement posting threshold (from materiality) in order to accumulate misstatements identified during the audit.

For the current period, the following amounts have been determined:

	Materiality	Audit Misstatement Posting Threshold
2014	\$3,750,000 which has been set at 2.15% of expenses.	\$187,500, which has been set at 5% of materiality.

Materiality was \$3,500,000 in the prior year.

Inherent risk is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

We highlight our significant findings in respect of significant financial reporting risks as identified during our audit planning.

## Significant financial reporting risks

As part of our audit planning, we identified the significant financial reporting risks that, by their nature, require special audit consideration. By focusing on these risks, we established an overall audit strategy and effectively target our audit procedures.

The *significant* financial reporting risks identified during our audit planning are listed below:

### Significant financial reporting risks

### Our significant findings from the audit

Risk of management override:

Required to be identified as a significant risk per professional standards.

We performed the required procedures under professional standards:

- Test all material journal entries made in the preparation of the year-end financial statements, entries potentially related to fraud or management override of controls, and inspect the relevant documentation for authorization and appropriateness
- A retrospective review of estimates, including the assumptions used by management
- Evaluating the business rationale of significant unusual transactions

We are satisfied that our audit work has appropriately dealt with the risk of management override.

Estimates related to contingent liabilities

- Refer to discussion on legal settlement accruals (page 6)

## Responsibilities of KPMG and management

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter dated November 2, 2010 and amended April 8, 2015.

# Critical accounting estimates

Asset / liability	Balance	Highlights of audit procedures and KPMG comments
Employee future benefit obligations	\$15,501,792	<ul style="list-style-type: none"> <li>• We performed substantive analytical procedures on the provision for payroll and vacation accruals prepared by management</li> <li>• We obtained an actuarial confirmation from Morneau Shepell, the City's actuary</li> <li>• We assessed the reasonableness of the discount rates and assumptions used by Morneau Shepell</li> <li>• We performed attribute testing over the data provided to Morneau Shepell</li> </ul>
Useful lives of tangible capital assets	\$387,765,232	<ul style="list-style-type: none"> <li>• We recalculated and tied out tangible capital asset continuity schedules and performed substantive analytical procedures on amortization expense</li> <li>• We assessed the reasonability and consistency of managements' estimates of useful lives for the various categories of assets</li> </ul>
Legal Settlement accruals	\$517,670	<ul style="list-style-type: none"> <li>• We have performed inquiries with management, including the City Solicitor and obtained confirmations directly from the City's external legal counsel.</li> <li>• Management has prepared a general estimate of losses on identified claims based on the estimated deductibles in the Municipal Insurance Association report and open claims report from the City's external legal counsel.</li> <li>• Although management has prepared an estimate of the claims, actual settlements may vary due to the numerous factors involved in each case and the significant range of possible outcomes.</li> </ul>
Land Swap	\$6,387,108	<ul style="list-style-type: none"> <li>• Management has measured the transaction at the historical cost of the property given up.</li> <li>• The swap does not result in a significant change in the fair value of properties owned by the City. Further the economic benefit on properties acquired, specifically the Crystal Gardens and 814 Wharf Street, is anticipated to be realized once additional investments have been made. Accordingly recognition of a significant financial gain would not represent the nature of the transaction and the future investment by the City to fully utilize these properties. We assessed the accounting treatment and concur that the carrying value of the property given up is an appropriate basis of measurement.</li> </ul>

We believe management's process for identifying critical accounting estimates is considered adequate.

# Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the City's relevant financial reporting framework. We would like to highlight the following changes in financial statement presentation:

<b>Form, arrangement, and content of the financial statements</b>	<ul style="list-style-type: none"><li>• Disclosure of the Johnson Street Bridge change order and the related mediation process was added to the contingent liability note.</li></ul>
<b>Application of accounting pronouncements issued but not yet effective</b>	<p>Contaminated Sites</p> <ul style="list-style-type: none"><li>• The Public Sector Accounting Board ('PSAB') has issued PS 3260 <i>Liability for Contaminated Sites</i> ("PS 3260"), which requires the recognition, measurement and disclosure of liabilities resulting from remediation of contaminated sites</li><li>• PS 3260 applies to fiscal years beginning on or after April 1, 2014, meaning the City will be required to report liabilities under this standard for the year ended December 31, 2015 and for all reporting periods thereafter</li><li>• Management has begun to prepare estimates for future application of the pronouncement</li></ul>



# Other matters

Professional standards require us to communicate to Council Other Matters, such as identified fraud or non-compliance with laws and regulations, consultations with other accountants, significant matters relating to the City's related parties, significant difficulties encountered during the audit, and disagreements with management.

None of the above described matters were noted.

We have highlighted below other significant matters that we would like to bring to your attention:

Matter	KPMG comments
<p>Recognition of Bridge Grant Claims</p> <ul style="list-style-type: none"> <li>The City receives funding from the Building Canada Fund (the "BCF") and the Union of BC Municipalities ("UBCM") on expenditures incurred on both the multi-use trail and the main structure of the bridge. Costs are allocated amongst these two components of the bridge based on square footage.</li> <li>Management has accrued a receivable related to eligible expenditures incurred in relation to the bridge which will be claimed from the BCF and UBCM.</li> </ul>	<ul style="list-style-type: none"> <li>We recalculated the width percentages for the multi-use trail and the main structure based on engineering project plans with no significant discrepancies noted.</li> <li>Per discussions with Management, it was noted that BCF prefers to pay contributions over the life of a project. Accordingly as of December 1, 2014, they have made an adjustment to the claim rate downwards from the originally planned rate of 33% to a revised rate of 24%.</li> <li>Management still anticipates maximization of the full value of the \$21M grant at the 24% rate.</li> <li>Management has accrued a receivable from the BCF for eligible hard costs incurred up to November 30, 2014 at the rate of 33% as BCF changed the rate and suspended grant submissions subsequent to that date. The eligible hard costs for the month of December were not accrued as a receivable given that the BCF has not authorized the associated payment.</li> <li>BCF intends to resume grant payments once the claims to date reach a rate of 24% of the eligible costs.</li> <li>Per discussions with Management, it was noted that the UBCM portion of December eligible costs on the multi-use trail were not accrued as receivable at year end. However, as no suspension on grant payments from the UBCM had occurred, contributions from UBCM for December eligible costs are considered authorized. Accordingly, eligible expenditures on the bridge incurred in the month of December 2014 should be accrued as receivable pursuant to the agreement with the UBCM.</li> <li>KPMG proposed an adjustment to increase the grant receivable and revenue by \$750,151. Management has accepted this adjustment</li> </ul>

#### Johnson Street Bridge Change Order

- The City received a change order request from PCL seeking an increase of \$17.075 million and an extension in the timeline for bridge construction completion.
- Further, the MMM Group has requested additional funds of \$1.8 million for project completion as well as \$841,450 for their sub-contractor Hardesty & Hanover.
- In discussions with Management and the City's external lawyer, all parties have now agreed to a mediator and the mediation process commenced in December. As the construction project is ongoing, the mediation process is in early stages and a conclusive settlement is unlikely to occur until much closer to the completion of the project.
- In the mediation, management is defending that a fixed-price contract exists with both PCL and MMM and the City should not be subject to any additional costs. Accordingly, they have not accrued any liability in respect of the matter in these financial statements.
- We received confirmation from the external lawyer in respect of the above matter. We concur with management's assessment. We have recommended further disclosure in the notes and management has agreed with our recommendation.

#### Liability for Contaminated Sites

- Effective January 1, 2015 PSAS require that a liability be recognized for contaminated sites not in productive use, when the government is responsible for, or accepts responsibility for, the contamination, and the contamination exceeds existing environmental standards.
- KPMG provided management with a readiness assessment to assist in identifying contaminated sites. We have performed inquiries with management and reviewed their process for establishing risk criteria and likelihood of a contaminated site.
- One property was identified by Management as a contaminated site. Per discussions with Management, an order to contain was received in respect to this property (1012 Yates Street), Management and the City Solicitor's assessment is that the City's liability is only to contain the contamination and not remediate the property.
- We concur with management's assessment that it is unlikely at this time that the City has a material contaminated site that would require an accrual for clean-up costs.

# Audit adjustments and differences

Audit adjustments and differences identified during the audit have been categorized as Corrected audit adjustments; or Uncorrected audit differences. These include disclosure adjustments and differences.

## Corrected audit adjustments

The management's representation letter includes all adjustments identified as a result of the audit, communicated to management and subsequently corrected in the financial statements. See Appendix 2 for representation letter.

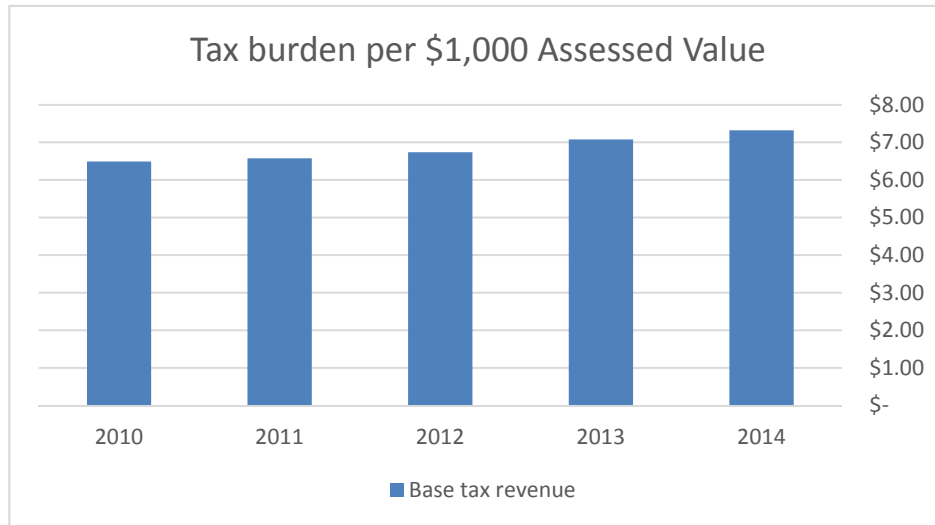
## Uncorrected audit differences

We did not identify differences that remain uncorrected.

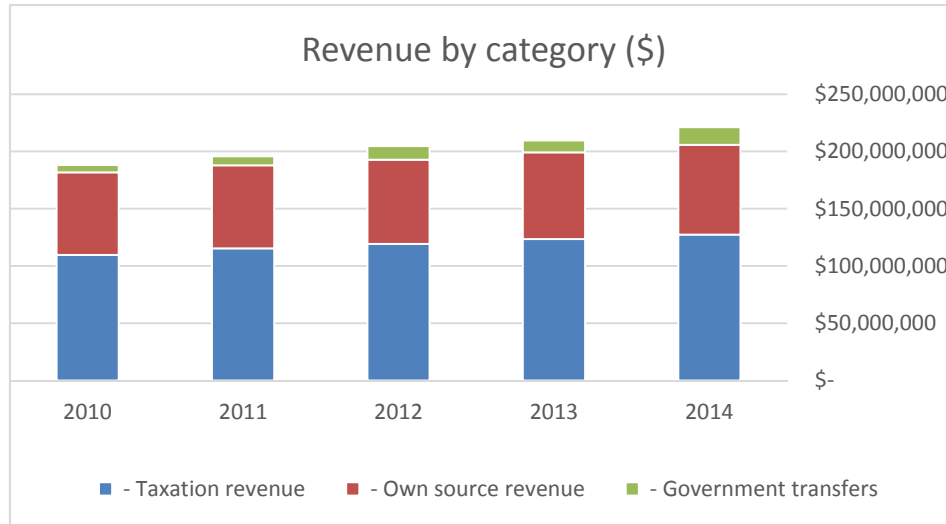
# Selected financial information

As part of the audit, there are certain key ratios and trends that we look at to assess audit risk and likelihood of error and/or misstatement. We share these with Council and Management and welcome any questions related to our interpretation of trends.

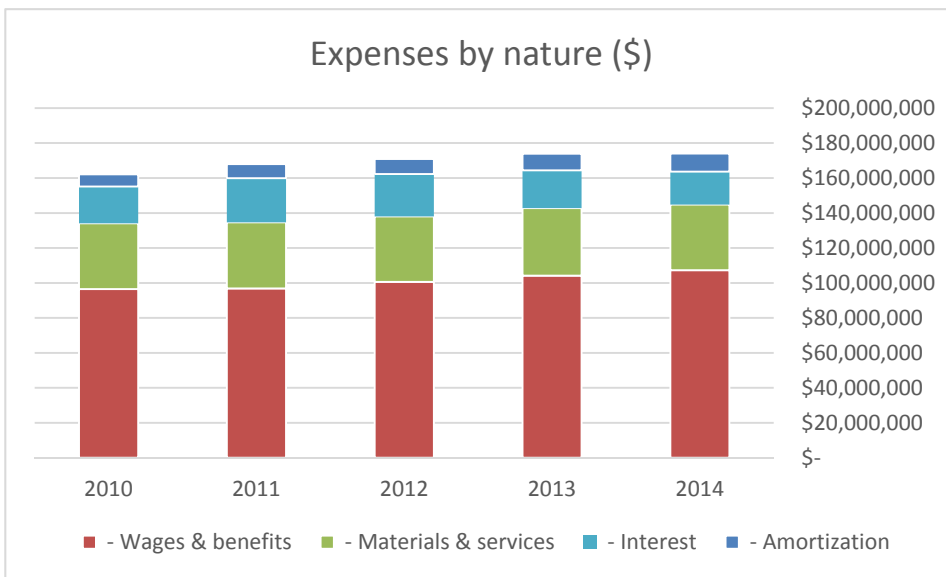
*Note: the following financial information is taken from the annual audited financial statements prepared in accordance with Public Sector Accounting Standards. The accounting framework used in these financial statements differs from the framework used in the rate-setting formula (financial plan) in that the rate-setting formula includes transfers from reserves and other prior period unspent funds and planned capital acquisitions.*



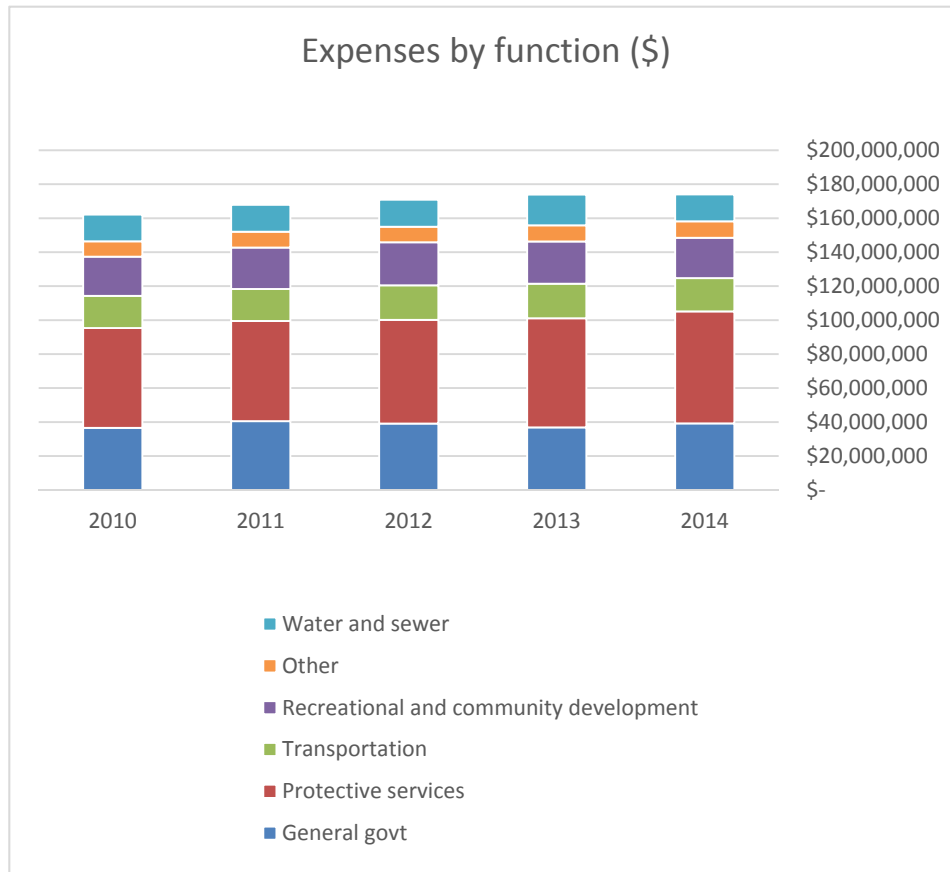
The City's tax burden has been increasing at an average of 2.4% per year. The total taxable assessment has increased at about 0.6% per year. The net effect is an average 3% increase in tax revenues per year to the City.



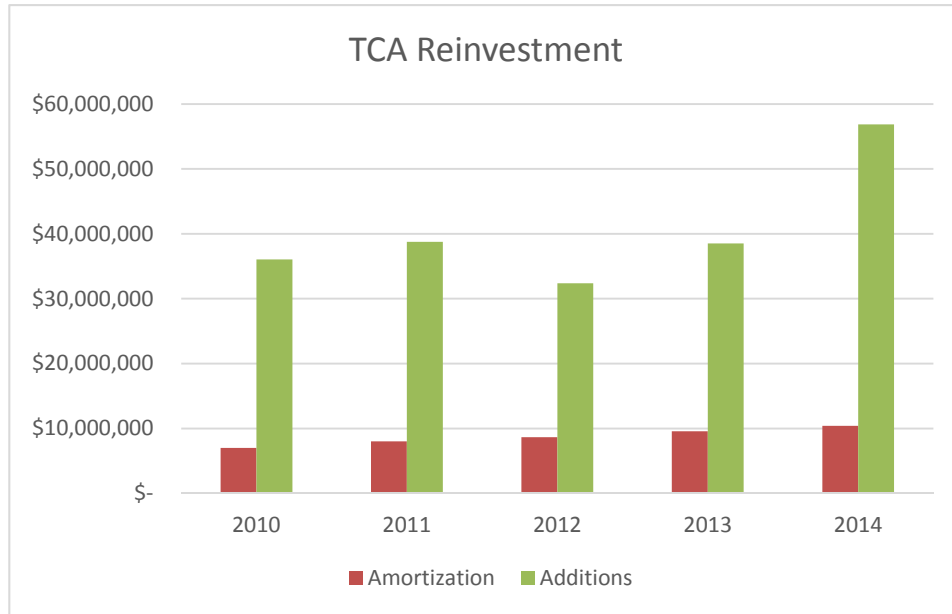
Taxation represents 57.6% (2013 – 59%) of total revenues. Own-source revenues have increased an average of 1.7% per year since 2010. Government transfers have increased substantially due to grants received in association with the Johnson Street Bridge.



Total annual expenses have increased at an average rate of 1.4% per year. Wages and benefits have increased at an average rate of 2.2% per year, amortization has increased at an average of 8% while materials, supplies and service expense has remained relatively constant from 2010.

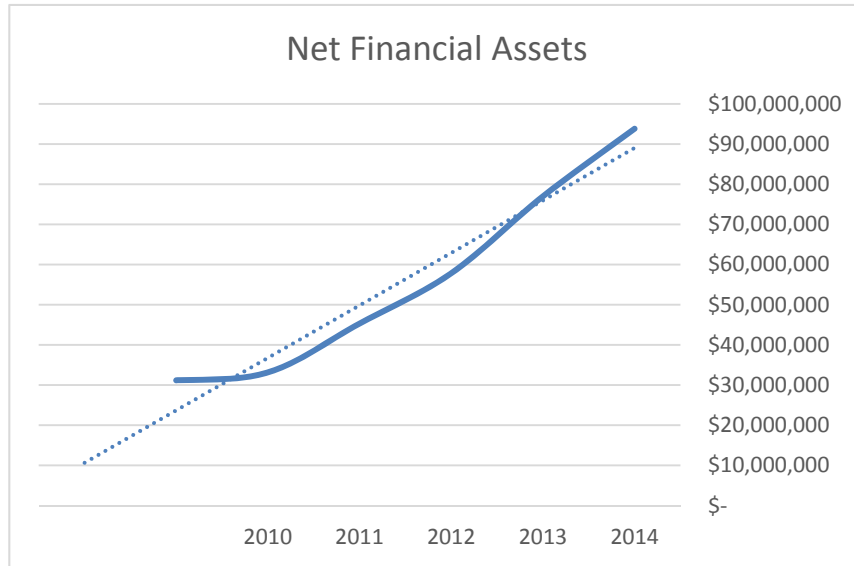


From 2010, total expenses have increased by 1.4%. Protective services has had the most significant increases at an average of 2.3% per year.



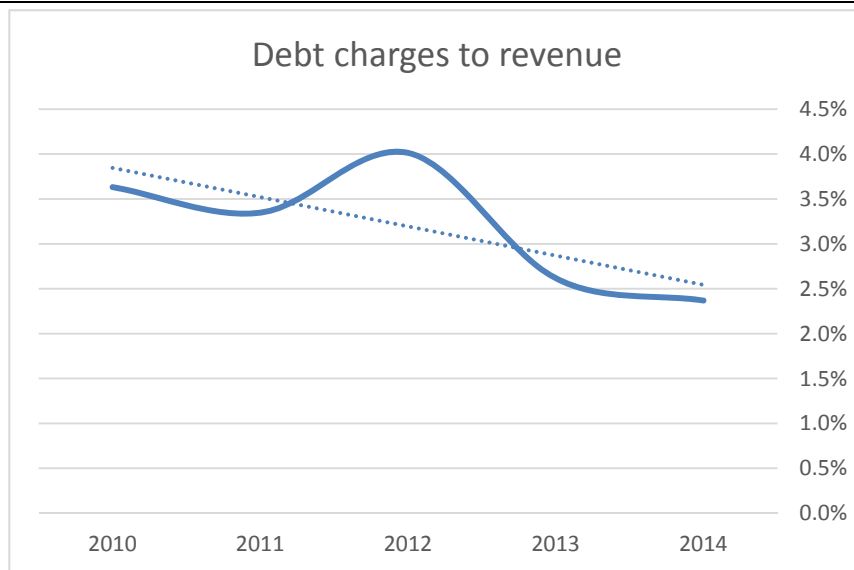
The Tangible capital asset net book value to cost ratio trend has stayed relatively consistent over the 5 years.

The City has replaced assets at a much higher rate than they were amortized at.



Net financial assets is a measurement of the available financial resources that the City has to finance future operations.

The net financial assets have been increasing at an average of 23% per year, representing an accumulation of financial assets / unspent revenues.



Debt charges (principal and interest) have remained a relatively low percentage of the City's annual costs



# Appendices

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**Appendix 1: Required communications**

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**Appendix 2: Management representation letter**

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**Appendix 3: Value for fees**

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**Appendix 4: Audit quality and risk management**

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**Appendix 5: Current developments**

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# Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report included with the draft financial statements
- **Management representation letter** – we will obtain from management at the completion of the annual audit. In accordance with professional standards, the management representation letter is attached and included at Appendix 2.

# Appendix 2: Management representation letter

Aprill \_\_, 2015

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as "financial statements") of The Corporation of the City of Victoria ("the Entity") as at and for the periods ended December 31, 2014.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

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:

## **GENERAL:**

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated November 2, 2010 for:
  - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework
  - b) providing you with all relevant information, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, board of trustees and committees of the board that may affect the financial statements, and access to such relevant information
  - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
  - d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements

## **INTERNAL CONTROL OVER FINANCIAL REPORTING:**

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

## **FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:**

- 3) We have disclosed to you:
  - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
  - b) 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

- c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, regulators, or others
- d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements
- e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

**SUBSEQUENT EVENTS:**

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

**RELATED PARTIES:**

- 5) 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 and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

**ESTIMATES:**

- 6) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

**MISSTATEMENTS:**

- 7) We did not identify misstatements that remain uncorrected.
- 8) We approve the corrected misstatements identified by you during the audit described in Attachment II.

**OTHER:**

- 9) We have complied with subsection 2 and 3 of section 124 of Part 8 of the School Act.
- 10) The City's Home Owner Grant Certificate has been prepared and presents fairly the Home Owner Grant information of the City in accordance with the provisions of Section 12 of the Home Owner Grant Act.

Yours very truly,

THE CORPORATION OF THE CITY OF VICTORIA

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By: Susanne Thompson, Director of Finance

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By: Laurel Westinghouse, Manager of Accounting

## Attachment I – Definitions

### **MATERIALITY**

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

### **FRAUD & ERROR**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

### **RELATED PARTIES**

In accordance with Canadian accounting standards for the public sector (PSAB) *related party* is defined as:

- one party that has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence.

In accordance with Canadian accounting standards for the public sector (PSAB) a related party transaction is defined as:

- a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged.

## **Attachment II – Summary of Audit Misstatements**

### Corrected misstatements

- To accrue \$750,151 of claimable bridge costs for December as grant revenue and accounts receivable from the Union of British Columbia Municipalities.

### Corrected misstatements in presentation and disclosure

- Revised presentation to cash and cash equivalents from investments of a \$6M investment with term to maturity of less than 90 days.
- Other minor modifications to presentation and disclosure including additional disclosure for the Johnson Street Bridge change order were recommended and accepted.

# Appendix 3: Value for fees

## The value of our audit services

We recognize that the primary objective of our engagement is the completion of the audit of the financial statements in accordance with professional standards. We also believe that our role as external auditor of the City and the access to information and people in conjunction with our audit procedures, places us in a position to provide other forms of value. **We know that you expect this of us.**

We understand your expectations. To facilitate a discussion (either in the upcoming meeting or in separate discussions), we have outlined some of the attributes of our team and our processes that we believe enhanced the value of our audit service. We recognize that certain of these items are necessary components of a rigorous audit.

We welcome your feedback.

- Extensive industry experience on our audit team – as you have experienced, the members of our audit team have extensive experience in audits of municipalities. This experience ensures that we are well positioned to identify and discuss observations and insights that are important to you.
- Timely responses and helpful guidance are provided on complex accounting matters and in the adoption of new accounting standards including PS3410 – Government transfers and the upcoming section PS3260 – Liability for contaminated sites.
- Current development update sessions – Annually we organize and deliver tailored information sessions on current developments in financial reporting and other matters that are likely to be significant to municipalities in order to assist clients in proactively responding to / addressing financial reporting and regulatory changes.
- Involvement of specialists – Our audit team is supported by KPMG specialists in income and other taxes, information risk management, valuations and derivatives.

# Appendix 4: Audit quality and risk management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit <http://www.kpmg.com/Ca/en/services/Audit/Pages/Audit-Quality-Resources.aspx> for more information.

- Other controls include:
  - Before the firm issues its audit report, Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
  - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.



- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.
- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
  - Assignment based on skills and experience;
  - Rotation of partners;
  - Performance evaluation;
  - Development and training; and
  - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.



# Appendix 5: Current developments

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## GST/HST harmonized audits

The Canada Revenue Agency (CRA) has followed through on its intent to focus on public service bodies (e.g., municipalities, universities, colleges, hospitals, schools, associations, charities, non-profits etc.) for purposes of conducting GST/HST audits. Many public service bodies have undergone audits or have been contacted to begin an audit.

We offer the following general observations on the impact of the CRA's increased focus on the public sector:

- It is important that you have a plan in place for a GST/HST audit, including having a fixed point of contact for the auditor. Planning and managing the audit is as important as having the appropriate policies and procedures.
- The CRA has been focusing on documentation, sharing arrangements, grants and sponsorships, and the allocation of inputs between taxable and exempt activities for input tax credit purposes (e.g., the filing of a section 211 election and claiming of input tax credits on the use of real property).
- The CRA has not consistently been applying audit offsets (e.g., allowing unclaimed input tax credits or rebates) that would help minimize the impact of any assessments.

Our experience with GST/HST auditors has varied from audit to audit. However, in each case, the taxpayer has the burden of proof. The best approach is to be prepared in advance of receiving that call from CRA.

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## Cyber Security, Is your organization at risk?

Cyber attacks are an inevitable part of life today, and the financial and reputational costs of not being prepared against such attacks are significant. Cyber attacks are being launched against all forms of valuable information including both financial and non financial data sources. Estimates suggest the global financial impact of cybercrime is US\$114 billion; companies are thought to bear almost 80% of those costs. The nature of these attacks and the perpetrators behind them are always changing. Hacktivists, organized criminals, competitors, and even rogue governments are mounting attacks with a high level of sophistication and persistence. These perpetrators have different motives, however are common in that they are looking to either disrupt or better themselves by stealing another entities data.

Patching servers and installing intrusion detection systems is no longer enough to protect your critical assets and business processes. Cyber Security has never been solely about IT; it has always been a business issue first. To survive and prosper requires a business-wide understanding of the threats, safeguards, and responses involved. Key elements to consider include:

- Preparing your people, processes, infrastructure and technology to resist an attack

- Detecting the attack and initiating your response
- Containing and investigating the attack
- Recovering from an attack and resuming business operations
- Reporting on and improving security

Municipalities should begin to review their organization and consider Cyber Risks. Key data that may be identified includes key research data; client or member data etc.

## Developments in Canadian Public Sector Accounting Standards:

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### Standard on Contaminated Sites

#### *Highlights*

A new standard has been issued establishing standards on accounting for and reporting the liability related to contaminated sites.

This standard requires a government to record a liability when the standard exists, the contamination in question exceeds an authoritative environmental standard and the government is directly responsible or accepts responsibility. Voluntary compliance with a non-authoritative policy or guideline may create a liability.

#### *Effective date and transition*

The standard is effective for fiscal periods beginning on or after April 1, 2014 however earlier adoption is permitted. For municipalities, implementation will be in the year ended December 31, 2015.

#### *Implications*

Municipalities will have to review any contaminated sites and determine if a liability meets the standards such that it must be reported.

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### New Standard on Financial Instruments

#### *Highlights*

A new standard has been issued establishing standard on accounting for and reporting all types of financial instruments including derivatives.

The standard requires that all financial instruments that are equity instruments and trade in an active market or derivatives be recorded at fair value. The standard requires that all other financial instruments are recorded at cost but permits the option of fair value for any financial instruments that are managed and reported at fair value. This standard also includes a requirement to identify and report embedded derivatives separate from the host contract with an option to value the full contract which includes the embedded derivatives at fair value.

#### *Effective date and transition*

The standard is effective for fiscal periods beginning on or after April 1, 2016. Earlier adoption is permitted. An entity early adopting this standard must also early adopt the revised Foreign Currency Translation standard.

#### *Implications*

This standard requires municipalities to record any equity investments that trade in an active market at fair market value. Municipalities can also elect to record any investments that are managed and evaluated on a fair value basis at fair value. Changes in fair value of all assets that are recorded at fair market value will be reported in a new financial statement; the statement of remeasurement gains and losses.

This standard will also require municipalities to identify any contracts that have embedded derivatives and recognize these on the statement of financial position at fair value.

This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the municipality. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type (credit, liquidity and market).

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## Revised Standard on Foreign Currency Translation

#### *Highlights*

A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency.

#### *Effective date and transition*

The standard is effective for fiscal periods beginning on or after April 1, 2016. Earlier adoption is permitted. An entity early adopting this standard must also adopt the new Financial Instruments standard.

#### *Implications*

Exchange gains and losses arising prior to settlement are recognized in a new statement of remeasurement gains and losses.



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City of Victoria Audit Findings Report for the year ended December, 31 2014

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