

Appendix A



The Corporation of the City of Victoria

Planning Report to the Council

September 25, 2017



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September 25, 2017

Council
The Corporation of the City of Victoria
1 Centennial Square
Victoria, BC, V8W 1P6

Dear Council Members:

We are pleased to present our audit plan for the audit of the financial statements of the Corporation of the City of Victoria (the "City") for the year ended December 31, 2017.

Our report is designed to highlight and explain key issues which we believe to be relevant to the audits including audit risks, the nature, extent and timing of our audit work and the terms of our engagement. The audit planning report forms a significant part of our overall communication strategy with the Council and is designed to promote effective two-way communication throughout the audit process. It is important that we maintain effective two-way communication with the Council throughout the entire audit process so that we may both share timely information. The audit process will conclude with a Council meeting and the preparation of our final report to the Council.

This report has been prepared solely for the use of the Council and should not be distributed without our prior consent. Consequently, we accept no responsibility to a third party that uses this communication.

The Council plays an important part in the audit planning process and we look forward to meeting with you to discuss our audit plan as well as any other matters that you consider appropriate.

Yours truly,

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

BC/mkn



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EXECUTIVE SUMMARY

ENGAGEMENT LETTER

The terms and conditions of our engagement are included in the most recent engagement letter, dated October 31, 2016 attached in Appendix C. (These letters are typically updated every 3 years.)

RESPONSIBILITIES

It is important for Council to understand the responsibilities that rest with the external auditor and the responsibilities of those charged with governance. BDO's responsibilities are outlined within the engagement letter. The oversight and financial reporting responsibilities of Council as they pertain to the annual audit are summarized below.

- Receive the work of the external auditor engaged for the purpose of issuing an independent auditor's report.
- Have the auditor advise on any significant non-audit services to be provided to the City by the external auditor.
- Facilitate the resolution of disagreements between management and the external auditor regarding financial reporting matters, if any.
- Refer to Appendix F for full details on the responsibilities of Council.

ENGAGEMENT OBJECTIVES

- Express an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, changes in its net financial assets, and cash flows of the City in accordance with Public Sector Accounting Standards ("PSAS").
- Present significant findings to Council including key audit and accounting issues, any significant deficiencies in internal control and any other significant matters arising from our work.
- Provide opinions on the C2 - Home Owner Grant/Treasure/Audit Certificate and the compliance with the agreement relating to Part 8 of the School Act (British Columbia).
- Provide timely and constructive management letters. This will include deficiencies in internal control identified during our audit.
- Consult regarding accounting, indirect taxes and reporting matters as requested throughout the year.
- Read the other information included in the City's Annual Report to identify material inconsistencies, if any, with the audited financial statements.



AUDIT STRATEGY

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

Refer to Appendix B for a high level overview of our audit strategy.

MATERIALITY

Misstatements, including omitted financial statement disclosures, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances and include an assessment of both quantitative and qualitative factors and can be affected by the size or nature of a misstatement, or a combination of both.

For purposes of our audit, we have set preliminary materiality at \$3,400,000 for the City and a preliminary performance materiality (used for sampling) at \$2,550,000.

Our materiality calculation is based on the City’s prior year results. In the event that actual results vary significantly from those used to calculate preliminary materiality, we will communicate these changes to Council as part of our year end communication.

We will communicate all corrected and uncorrected misstatements identified during our audit to Council, other than those which we determine to be “clearly trivial” i.e. less than \$170,000 for the City. Misstatements are considered to be clearly trivial for purposes of the audit when they are inconsequential both individually and in aggregate.

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

RISKS AND PLANNED AUDIT RESPONSES

Based on our knowledge of the City’s operations, our past experience, and knowledge gained from management and Council, we have identified the following significant risks; those risks of material misstatement that, in our judgment, require special audit consideration.

Significant risks arise mainly because of the complexity of the accounting rules, the extent of estimation and judgment involved in the valuation of these financial statement areas, and the existence of new accounting pronouncements that affect them. On the following page we note risks common in audits of local governments as supplemented with items particular to the City’s circumstances. Should there be any other key risks that may impact the financial statement reporting that you feel also should be considered, please let us know and we will work such items into our audit plan.

RISKS AND PLANNED AUDIT RESPONSES (CONTINUED)

	Audit Risk	Proposed Audit Approach
Management Override of Internal Controls (Mandatory audit procedure)	The City's current internal control systems could be subject to an override of existing controls by management resulting in unauthorized transactions or unauthorized adjustments to the accounting records.	Review of significant transactions recorded in the various ledgers for unusual or non-recurring adjustments not addressed by other audit procedures.

Other areas that may be considered higher risk are as follows:

	Audit Risk	Proposed Audit Approach
Cash and Investments	Cash planning and investment management are important aspects of good financial controls. Due to its nature, cash and investments are almost always considered to be a risk area in any audit.	Our planned audit procedures include review of reconciliations, substantive testing of transactions and confirmations of end of period balances.
Staff Salaries	A significant single type of expenditure that covers many employees and departments. As a municipality, this figure is often of particular interest to financial statement users (ratepayers).	Application of computer audit testing to analyze all payroll transactions in the year is a key step to identify unusual payroll relationships for testing. We will also perform systems testing, tests of controls and analytical review of staff salary and levels.
Tangible Capital Assets and Accumulated Amortization	Useful life estimates will need to be re-evaluated on the tangible capital assets to determine if they are still accurate. This involves a high level of estimation and coordination of the finance department with other departments.	We will perform test of controls for appropriate authorization of purchases combined with substantive testing of additions and disposals in the year and amortization calculations. Useful lives of existing assets will be reviewed for changes in estimates, if applicable. Repairs and maintenance ledgers will also be reviewed for possible capital items that have been expensed.



Employee Future Benefits

A complex area that requires a great degree of estimation and reliance on actuarial experts.

We will review actuarial reports and audit the significant assumptions.

We will test the data provided to the actuary for accuracy and completeness, as it drives the actuarial calculations.

We will directly communicate with the external actuaries.

Deferred Revenue and Government Grants

The City collects monies from third parties and the government for specific projects. There is a risk that these charges and grants are not appropriately calculated and recorded.

Our planned audit procedures include review of agreements from funding agencies, review of government transfers, and review of expenditures relating to grants and government transfers.

Development Cost Charges

As with all municipalities, DCC collection is a complex area requiring interaction of several City departments. There is a risk that the DCCs may not completely or properly charged.

We will review management's process for identifying the properties where new DCCs area applicable and test that appropriate amounts collected.

EXPERTS

In order for us to perform adequate audit procedures on certain financial statement areas, we will be relying on the work of, and the report prepared by, Morneau Shepell. Canadian generally accepted auditing standards require us to communicate with the expert. We propose to discuss the following with Morneau Shepell:

- The objective and nature of our audit engagement and how we intend to use the expert's findings and report.
- Our assessment of the significance 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 organization 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 Morneau Shepell and that they also review the assumptions used and results reported by the expert for reasonableness.

FRAUD RISK

Canadian generally accepted auditing standards require us to discuss fraud risk with Council on an annual basis. Given the nature of such items, it is not appropriate to discuss this section in an open meeting. We have prepared the following comments to facilitate this discussion. This can be further discussed in an in-camera meeting following the yearend audit.

Required Discussion	BDO Response	Question to Council
Details of existing oversight processes with regards to fraud.	<p>Through our planning process, and based on prior years' audits, we have developed an understanding of your oversight processes including:</p> <ul style="list-style-type: none">• Council meeting for annual financial statements includes discussion on fraud;• Follow-up report and discussions at regular Council meetings regarding audit findings report and follow-up actions, which include discussion of internal controls;• Review of related party transactions; and• Consideration of tone at the top.	<p>Are there any new processes or changes in existing processes relating to fraud that we should be aware of?</p>
Knowledge of actual, suspected or alleged fraud.	<p>Currently, we are not aware of any fraud.</p>	<p>Are you aware of any instances of actual, suspected or alleged fraud affecting the City?</p>

Refer to Appendix G for our considerations of possible fraud and illegal activities during the performance of our audit.



FINAL ENGAGEMENT REPORTING

As part of our final reporting to Council, we will provide a communications package to support Council in discharging their responsibilities. This communication will include any identified significant deficiencies in internal controls. See Appendix I for a comprehensive list of communication requirements throughout the audit.

OTHER MATTERS

Timing	<p>The following schedule has been agreed to with management:</p> <ul style="list-style-type: none">• Interim audit fieldwork - November 27 - December 1, 2017• Year end audit fieldwork - March 5 - March 16, 2018• Review of draft financial statements with management prior to approval by Council• Finalization of financial statements - Immediately subsequent to approval by Mayor and Council in late April
Independence	<p>Our annual independence letter has been included as Appendix H.</p>
Management Representations	<p>As part of our audit finalization we will obtain written representation from management, a copy of these representations will be included as part of our final report.</p>
New Accounting Standards	<p>Refer to Appendix K for changes in standards. Any changes that will impact the City are not expected to be significant.</p>

APPENDIX A - Your BDO Engagement Team

Name	Title
Bill Cox, FCPA, FCA	Engagement Partner
bcox@bdo.ca	
Kayan Yu, CPA, CA	Audit Senior Manager
Jonas Kwong, CPA	Audit Staff

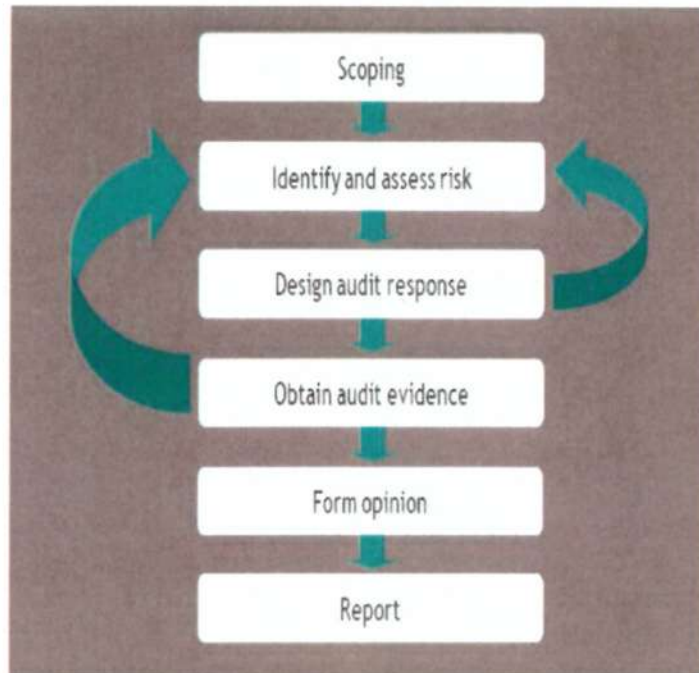
APPENDIX B - Audit Strategy

Our overall audit strategy involves extensive partner and manager involvement in all aspects of the planning and execution of the audit and is based on our overall understanding of the City.

We will perform a risk-based audit which allows us to focus our audit effort on higher risk areas and other areas of concern for management and Council.

To assess risk accurately, we need to gain a detailed understanding of the City's operations and the environment it operates in. This allows us to identify, assess and respond to the risks of material misstatement.

To identify, assess and respond to risk, we 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. We then determine whether adequate accounting records have been maintained and assess the adequacy of these controls and records as a basis upon which to design and undertake our audit testing.



Based on our risk assessment, we design an appropriate audit strategy to obtain sufficient assurance to enable us to report on the financial statements.

We choose audit procedures that we believe are the most effective and efficient to reduce audit risk to an acceptably low level. The procedures are a combination of testing the operating effectiveness of internal controls, substantive analytical procedures and other tests of detailed transactions.

Having planned our audit, we will perform audit procedures maintaining an appropriate degree of professional skepticism, in order to collect evidence to support our audit opinion.

APPENDIX C - Engagement Letter



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BDO Canada LLP
Suite 500
1801 Douglas Street
Victoria, BC
V8T 5C1

October 31, 2016

City of Victoria
1 Centennial Square
Victoria, BC
V8W 1P6

Attention: Susanne Thompson, CPA, CGA, Director of Finance

Dear Sirs/Mesdames

We understand that you wish to appoint us as the auditors of City of Victoria commencing with its fiscal year ended December 31, 2016.

We are pleased to accept appointment as your auditors subject to the terms and conditions of this Agreement, to which the attached Standard Terms and Conditions form an integral part. The definitions set out in the Standard Terms and Conditions are applicable throughout this Agreement. This Agreement will remain in place and fully effective for future years until varied or replaced by another relevant written agreement.

Bill Cox, FCPA, FCA will be the Engagement Partner for all assurance work we perform for you. The Engagement Partner will call upon other individuals with specialized knowledge to assist in the performance of Services.

Our Role as Auditors

We will conduct our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements prepared in accordance with Canadian public sector accounting standards are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. Our audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by you, as well as evaluating the overall financial statement presentation.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements, whether by fraud or error, may not be detected, even though the audit is properly planned and performed in accordance with Canadian generally accepted auditing standards.

In making our risk assessments, we consider internal control relevant to your preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of your internal controls. However, we will communicate to you concerning any significant deficiencies in internal controls relevant to the audit of the financial statements that we have identified during the audit.

We will also communicate matters required by professional standards, to the extent that such matters come to our attention, to you, those charged with governance and/or Council.

Reporting

Our audit will be conducted on the basis that the financial statements have been prepared in accordance with Canadian public sector accounting standards.

Our independent auditor's report will be substantially in the form set out in Canadian Auditing Standard (CAS) 700. The form and content of our report may need to be amended in the light of our audit findings. If we are unable to issue or decline to issue an audit report, we will discuss the reasons with you and seek to resolve any differences of view that may exist.

Role of Management and Those Charged with Governance

You acknowledge and understand that you have responsibility for:

- (a) the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards. The audit of the financial statements does not relieve you of your responsibilities;
- (b) such internal controls as you determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- (c) providing us with:
 - access, in a timely manner, to all information of which you are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - additional information that we may request for the purpose of the audit;
 - unrestricted access to persons within the entity from whom we determine it is necessary to obtain audit evidence;
 - financial and non-financial information (other information) that will be included in document(s) containing financial statements and our audit report thereon prior to the date of our auditor's report. If it is not possible to provide all the other information prior to the date of our auditor's report, you are responsible for provision of such other information as soon as practicable; and
 - written confirmation concerning representations made to us in connection with the audit. If appropriate and adequate written representations are not provided to us, professional standards require that we disclaim an audit opinion.

Financial Statement Services

We will obtain your approval, if during the course of our engagement we:

- (a) prepare or change a journal entry; or
- (b) prepare or change an account code or a classification for a transaction.



These services create a threat to our independence. We, therefore, require that the following safeguards be put into place:

- that you create the source data for all accounting entries;
- that you develop any underlying assumptions for the accounting treatment and measurement of entries; and
- that you review and approve the draft financial statements, including the notes to the financial statements.

Tax Services

Our audit is conducted primarily to enable us to express an opinion on the financial statements. Accordingly, the audit process is not designed to provide us with a full understanding of your tax situation and in particular, to allow us to determine whether the organization has specific tax compliance issues. We will, however, provide advice on an ongoing basis on general income tax matters as requested by you. A separate engagement letter may be issued for significant tax projects. To the extent that tax services requested by you are not covered by a separate engagement letter, the terms of this Agreement shall apply to the tax services.

Additional Services

We are available to provide a wide range of services beyond those outlined in this Agreement. To the extent that any additional services that we provide to you that are not provided under a separate written engagement agreement, the provisions of this Agreement will apply to the services.

Standard Terms and Conditions

A copy of our Standard Terms and Conditions is attached as Appendix 1. You should ensure that you read and understand them. The Standard Terms and Conditions include clauses that limit our professional liability.

Please sign and return the attached copy of this Agreement to indicate your agreement with it. If you have any questions concerning this Agreement, please contact us before signing it.



It is a pleasure for us to be of service and we look forward to many future years of association with you.


Yours truly,

BDO Canada LLP

Chartered Professional Accountants

Agreement of all the terms and conditions in this Agreement is hereby acknowledged by:

City of Victoria

	<u>Susanne Thompson</u>	<u>Director of Finance</u>	<u>Nov 17, 2016</u>
Signature	Name (please print)	Position	Date

	<u>Laurel Westinghouse</u>	<u>Manager Acc</u>	<u>Nov 17, 2016</u>
Signature	Name (please print)	Position	Date

Appendix 1
Standard Terms and Conditions

1. Overview and Interpretation

- 1.1 This Agreement sets forth the entire agreement between the parties in relation to Services and it supersedes all prior agreements, negotiations or understandings, whether oral or written, with respect to Services. To the extent that any of the provisions of the accompanying Engagement Letter conflict with these Standard Terms and Conditions, these Standard Terms and Conditions shall prevail. This Agreement may not be changed, modified or waived in whole or part except by an instrument in writing signed by both parties.

- 1.2 In this agreement, the following words and expressions have the meanings set out below:

This Agreement - these Standard Terms and Conditions, the letter to which they are attached, and any supporting schedules or other appendices to the letter

Services - the services provided or to be provided under this Agreement

We, us, our, BDO - refer to BDO Canada LLP, a Canadian limited liability partnership organized under the laws of the Province of Ontario

You, your - the party or parties contracting with BDO under this agreement, including the party's or parties' management and those charged with corporate governance. You and your does not include BDO, its affiliates or BDO Member Firms

BDO Member Firm or Firms - any firm or firms that form part of the international network of independent firms that are members of BDO International Limited

Confidential Information - information that contains identifying features that can be attributed to you or individual personnel

2. BDO Network and Sole Recourse

- 2.1 BDO is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international network of independent member firms (i.e. BDO Member Firms), each of which is a separate legal entity.

- 2.2 We may use other BDO Member Firms or subcontractors to provide Services; however, we remain solely responsible for Services. You agree not to bring any claim or action against another BDO Member Firm (or their partners, members, directors, employees or subcontractors) or our subcontractors in respect of any liability relating to the provision of Services.

- 2.3 You agree that any of our affiliates, subcontractors, and other BDO Member Firms and any subcontractors thereof whom we directly or indirectly involve in providing Services have the right to rely on and enforce Section 2.2 above as if they were a party to this agreement.

3. Respective Responsibilities

- 3.1 We will use reasonable efforts to complete, within any agreed-upon time frame, the performance of Services.
- 3.2 You shall be responsible for your personnel's compliance with your obligations under this Agreement. We will not be responsible for any delays or other consequences arising from you not fulfilling your obligations.

4. Working Papers and Deliverables

- 4.1 **Ownership** Any documents prepared by us or for us in connection with Services belong solely to us.
- 4.2 **Oral advice and draft deliverables** You should not rely upon any draft deliverables or oral advice provided by us. Should you wish to rely upon something we have said to you, please let us know and, if possible, we will provide the information that you require in writing.
- 4.3 **Translated documents** If you engage us to translate any documents, advice, opinions, reports or other work product of BDO from one language to another, you are responsible for the accuracy of the translation work.
- 4.4 **Reliance by Third Parties** Our Services will not be planned or conducted in contemplation of or for the purpose of reliance by any third party other than you and any party to whom the assurance report is addressed. Items of possible interest to a third party will not be addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

- 4.5 **Consent to use the Report** If we are requested to consent to the use of our report in connection with a continuous disclosure document, a public or private offering document, an annual report or any other document, we will consider, at the relevant time, providing consent and any conditions applicable to our consent. Our consent must be in writing. In order to provide consent, professional standards require that we read the other information in the related document and consider whether such information is materially inconsistent with the related financial statements. We will require adequate notice of the request for consent to allow us to consider your identification and resolution of events occurring in the period since the date of our report, and to obtain updated written representation letters. Such procedures will be performed at your cost.

5. Confidentiality

- 5.1 We agree to use Confidential Information provided by you only in relation to the services in connection with which the information is provided and we will not disclose the information, except where required by law, regulation or professional obligation. We may, however, give Confidential Information to other BDO Member Firms or other subcontractors assisting us in providing services.
- 5.2 BDO shall be entitled to include a description of services we render to or for you in marketing and research materials and disclose such information to third parties, provided that all such information will be made anonymous and not associated with you. Additionally, we may

analyze information on an industry or sector basis for internal purposes or to provide industry/sector wide information to our clients or potential clients. You consent to our using information obtained from you in this way provided that the outputs therefrom will not contain any identifying features that can be attributed to you.

6. Independence

- 6.1 Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to our clients in the performance of our services. We will communicate to you any relationships between BDO (including its related entities) and you that, in our professional judgment, may reasonably be thought to bear on our independence. Further, we will confirm our independence in writing.

7. Offers of Employment

- 7.1 Any discussions that you, or any party acting on your behalf, have with professional personnel of our Firm regarding employment could pose a threat to our independence. Your recruitment of an engagement team member from the current or prior year's engagement may compromise our independence and our ability to render agreed services to you. Engagement team members may include current and former partners and staff of BDO, other BDO Member Firms and other firms who work under our direction. Therefore, you agree to inform us prior to any such discussions so that you and we can

implement appropriate safeguards to maintain our independence.

8. Professional and Regulatory Oversight

- 8.1 As required by legal, regulatory, or professional authorities (both in Canada and abroad) and by BDO policy, our client files must periodically be reviewed by practice inspectors to ensure that we are adhering to professional and BDO standards. It is understood that by entering into this agreement, you provide your consent to us providing our files relating to your engagement to the practice inspectors for the sole purpose of their inspection.
- 8.2 Certain regulatory bodies may also have the right to conduct investigations of you, including the services provided by us. To the extent practicable and permitted by law, we will advise you of any such investigation request or order prior to providing our working papers.
- 8.3 You agree to reimburse us for our time and expenses, including reasonable legal fees, incurred in responding to any investigation that is requested or authorized by you or investigations of you undertaken under government regulation or authority, court order or other legal process.

9. Privacy and Consents

- 9.1 You agree we will have access to all personal information in your custody that we require to complete our engagement. We may collect, use, transfer, store, or process such information disclosed by you of a personal nature (personal

information). Our services are provided on the understanding that:

- you have obtained any consents for collection, use and disclosure to us of personal information required under all applicable privacy legislation; and
- we will hold all personal information in compliance with our Privacy Statement.

10. Electronic Communications

10.1 Both parties recognize and accept the security risks associated with email communications, including but not limited to the lack of security, unreliability of delivery and possible loss of confidentiality and privilege. Unless you request in writing that we do not communicate by internet email, you assume all responsibility and liability in respect of risk associated with its use.

10.2 Unless BDO is otherwise advised in writing, by executing this agreement you provide BDO with consent to communicate with you electronically, including sending newsletters, publications, announcements, invitations and other news and alerts.

11. Limitation of Liability

11.1 In any dispute, action, claim, demand for losses or damages arising out of the services performed by BDO pursuant to this engagement, BDO shall only be liable for its proportionate share of the total liability based on degree of fault as determined by a court of competent jurisdiction or by an independent arbitrator as a result of the dispute resolution procedures, notwithstanding the provisions of any statute or rule of common law which

create, or purport to create, joint and several liability.

11.2 Our liability shall be restricted to damages of a direct and compensatory nature and shall not include indirect, consequential, aggravated or punitive damages, or damages for loss of profits or expected tax savings, whether or not the likelihood of such loss or damage was contemplated.

11.3 You agree that BDO shall not be liable to you for any actions, damages, claims, liabilities, costs, expenses, or losses in any way arising out of or relating to the services performed hereunder for an aggregate amount no more than the higher of:

- three times the fees paid by you to BDO in the twelve months preceding the incident giving rise to the claim; and
- \$25,000.

11.4 No exclusion or limitation on the liability of other responsible persons imposed or agreed at any time shall affect any assessment of our proportionate liability hereunder, nor shall settlement of or difficulty enforcing any claim, or the death, dissolution or insolvency of any such other responsible persons or their ceasing to be liable for the loss or damage or any portion thereof, affect any such assessment.

11.5 You agree claims or actions relating to the delivery of services shall be brought against us alone, and not against any individual. Where our individuals are described as partners, they are acting as one of our members.

12. Indemnity

12.1 To the fullest extent permitted by applicable law and professional regulations, you agree to indemnify and hold harmless BDO from and against all losses, costs (including solicitors' fees), damages, expenses, claims, demands or liabilities arising out of or in consequence of:

- a misrepresentation by a member of your management or Council member, regardless of whether such person was acting in your interest
- the services performed by BDO pursuant to this Agreement, unless, and to the extent that, such losses, costs, damages and expenses are found by a court of competent jurisdiction to have been due to the gross negligence of BDO. In the event that the matter is settled out of court, we will mutually agree on the extent of the indemnification to be provided by your company, failing which, the matter may be referred to dispute resolution in accordance with the terms of this letter.

13. Alternative Dispute Resolution

13.1 Both parties agree that they will first attempt to settle any dispute arising out of or relating to this agreement or the services provided hereunder through good faith negotiations.

13.2 In the event that the parties are unable to settle or resolve their dispute through negotiation, such dispute shall be subject to mediation pursuant to the National Mediation rules of the ADR Institute of Canada Inc. All disputes remaining unsettled for more than 60 days following the parties first meeting with a mediator

or such longer period as the parties mutually agree upon shall be subject to arbitration pursuant to the National Arbitration Rules of the ADR Institute of Canada Inc. Such arbitration shall be final, conclusive and binding upon the parties, and the parties shall have no right of appeal or judicial review of the decision. The parties hereby waive any such right of appeal which may otherwise be provided for in any provincial arbitration statute made applicable under the National Arbitration Rules.

14. Limitation Period

14.1 You shall make any claim relating to Services or otherwise under this Agreement no later than one year after you became aware (or ought reasonably to have become aware) of the facts giving rise to any such claim and in any event no later than two years after the completion of the relevant services. The parties to this Agreement agree that the limitation period established by any limitations act and/or any other applicable legislation shall be considered not to apply (to the extent permitted by law).

15. Intentionally Deleted

16. Termination

16.1 This Agreement applies to Services whenever performed (including before the date of this Agreement).

16.2 You or we may terminate this Agreement at any time upon written notice of such termination to the other party. We will not be liable for any loss, cost or expense arising from such termination. You agree to pay us for all services performed up to the date of termination, including services performed, work-in-progress and expenses incurred by us up to and

including the effective date of the termination of this Agreement.

17. Fees and Billings

- 17.1 Our estimated fee is based on an assumed level of quality of your accounting records, the agreed upon level of preparation and assistance from your personnel and adherence to the agreed-upon timetable. Our estimated fee also assumes that your financial statements are in accordance with the applicable financial reporting framework and that there are no significant new or changed accounting policies or issues or internal control or other reporting issues. We will inform you on a timely basis if these factors are not in place.
- 17.2 Should our assumptions with respect to the quality of your accounting records be incorrect or should the conditions of the records, degree of cooperation, results of audit procedures, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimated fees are based, we may adjust our fees and planned completion dates.
- 17.3 Our professional fees will be based on our regular billing rates which depend on the means by which and by whom our services are provided. We also will bill you for our out-of-pocket expenses, our internal charges for certain support activities, and applicable Harmonized Sales Tax, Goods and Services Tax and Provincial Sales Tax.
- 17.4 Our internal charges are calculated at 6% of our professional fees and represent an allocation of estimated costs associated with general office services such as computer usage, telephone charges, facsimile

transmissions, postage and photocopying.

- 17.5 Our accounts are due when rendered. BDO may suspend the performance of Services in the event that you fail to pay an invoice when it is due. Interest may be charged at the rate of 12% per annum on all accounts outstanding for more than 30 days.

18. Governing Laws

- 18.1 The terms of our engagement shall remain operative until amended, terminated, or superseded in writing. They shall be interpreted according to the laws of the province or territory in which BDO's principle Canadian office performing the engagement is located, without regard to such province/territory's rules on conflicts of law.

19. Entire Agreement and Survival

- 19.1 This Agreement sets forth the entire agreement between the parties with respect to the subject matter herein, superseding all prior agreements, negotiations or understandings, whether oral or written, with respect to such subject matter. It is understood that this letter will not be superseded by any contract with us for other specific services that are not of the same scope as the Services contemplated in this Agreement, unless the other contract explicitly references this Agreement and an intent to supersede it.
- 19.2 The provisions of this Agreement that give either of us rights or obligations beyond its termination shall continue indefinitely following the termination of this Agreement. Any clause that is meant to continue to apply after termination of this Agreement will do so.

20. Force Majeure

- 20.1 We will not be liable for any delays or failures in performance or breach of contract due to events or circumstances beyond our reasonable control, including acts of God, war, acts by governments and regulators, acts of terrorism, accident, fire, flood or storm or civil disturbance.

21. Assignment

- 21.1 No party may assign, transfer or delegate any of the rights or obligations hereunder without the written consent of the other party or parties. BDO may engage independent contractors and BDO Member Firms to assist us in performing the Services in this Agreement without your consent.

22. Severability

- 22.1 If a court or regulator with proper jurisdiction determines that a provision of this Agreement is invalid, then the provision will be interpreted in a way that is valid under applicable law or regulation. If any provision is invalid, the rest of this Agreement will remain effective.

APPENDIX D - Management Responsibilities

All facets of the City's internal controls including those governing the accounting records, systems and financial statements will be impacted by the organization's complexity, the nature of risks, and the related laws, regulations, or stakeholder requirements. It is management's responsibility to determine the level of internal control required to respond reasonably to the City's risks.

The preparation of the City's financial statements including all disclosures in accordance with Canadian public sector accounting standards is the responsibility of management. Among other things, management is responsible for:

1. Designing and implementing internal controls over financial reporting to enable the preparation of financial statements that are free of material misstatements;
2. Informing the City's auditors of any deficiencies in design or operation of internal controls;
3. Updating the City's auditors for any material change in the City's internal controls including if the individuals responsible for the controls that have changed;
4. Identifying and complying with any laws, regulations, and/or agreements which apply to the City;
5. Recording any adjustments required to the financial statements to correct material misstatements;
6. Safeguarding of assets;
7. Providing the auditor with all financial records, and related data which may be related to the recognition, measurement and or disclosure of transactions in the financial statements;
8. Providing accurate copies of all minutes of the regular and closed meetings of Council;
9. Providing timely, accurate information as requested for the completion of the audit;
10. Allowing unrestricted access to persons or information as requested as part of the audit; and
11. Notifying the auditor of any circumstances which arise between the date the audit work is completed and the approval date of the financial statements.

Representation Letter

We will make specific inquiries of the City's management about the representations embodied in the financial statements and internal control over financial reporting. During the completion of our audit documentation, we will require management to confirm in writing certain representations in accordance with Canadian generally accepted auditing standards. These representations are to be provided to us in the form of a representations letter which will be provided as near as practicable to, but not after the date of our auditor's report on the financial statements.

APPENDIX E - Circumstances Affecting Timing and Fees

Our professional fee for the audit is based on careful consideration of the time required to complete the required work. Circumstances may arise during the engagement which could significantly impact the targeted completion dates and or the extent of work required to complete the audit. As a result, additional fees may be necessary. Such circumstances include, but are not limited to, the following:

Significant Issues

1. Changes in the design or function of internal controls can impact the audit and result in additional substantive testing;
2. Significant number of proposed adjustments which are identified during the audit work;
3. Significant changes are required to the format or information contained in the financial statements;
4. New issues resulting from changes to:
 - a. Accounting standards, policies or practices
 - b. Special events or transactions which were not contemplated in the original budget
 - c. The financial reporting process or systems involved
 - d. Accounting personnel or availability of accounting personnel
 - e. The requirement to include specialists in the audit work
5. Changes to the scope of the audit.

Audit Execution

1. Audit schedules are not provided in a timely manner, are not mathematically correct, or do not agree to the underlying accounting records.
2. There are significant delays in responding to our requests for information or responses require significant further investigation.
3. The quality of the supporting information for the audit work has deteriorated from our previous experience.
4. A complete working paper package is not provided on the agreed upon date.
5. There is a limitation of access to the financial staff required to complete the audit.

APPENDIX F - Council Responsibilities

General Responsibilities

It is Council's responsibility to provide policy that provides for overview of the financial reporting process. This includes management's preparation of the financial statements, monitoring of the City's internal controls, overseeing the work of the external auditor, facilitating the resolution of disagreements between management and the auditor, as well as the final review of the financial statements and other annual reporting.

Significant Audit Findings

Based on the work we perform, any significant identified deficiencies in internal control will be reported to you in writing. The purpose of our audit is to express an opinion on the financial statements. While our audit includes a consideration of the internal control structure of the City, our work is focused on those controls relevant to financial reporting. As such, our work was not designed to provide an opinion on the effectiveness of the internal controls.

We will communicate our views regarding any significant qualitative aspects of the City's accounting practices. This would include the selection and application of accounting policies, estimates and financial statement disclosure. If during our audit we feel that the selected policies, estimates or disclosures are not appropriate for the City under its reporting framework, we will communicate these matters to Council.

In addition, we will communicate:

- Any significant difficulties which arose during the audit;
- Any reasons identified which may cause doubt as to the City's ability to continue as a going concern;
- The written representations we will request from management;
- Any identified unadjusted misstatements; and
- Any identified or suspected fraudulent activities.

APPENDIX G - Auditor's Considerations of Possible Fraud and Illegal Activities

We are responsible for planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by error or fraud, by:

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

The likelihood of not detecting a material misstatement resulting from fraud is higher than the likelihood of not detecting a material misstatement resulting from error because fraud may involve collusion, as well as sophisticated and carefully organized schemes designed to conceal it.

During the audit, we will perform risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the City's internal control system, to obtain information for use in identifying the risks of material misstatement due to fraud and make 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 behaviour.

In response to our risk assessment and our inquiries of management, we will perform procedures to address the assessed risks, which may include:

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



APPENDIX H - Independence Letter

E-mail: bcox@bdo.ca

September 25, 2017

Council
The Corporation of the City of Victoria
1 Centennial Square
Victoria, BC V8W 1P6

Dear Council Members:

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, 2017.

Canadian generally accepted auditing standards (GAAS) no longer require that we communicate formally to you in regard to independence matters, however we consider it to be a good practice. As such, we are reporting to you regarding all relationships between the City (and its related entities) 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 Chartered Professional Accountants of British Columbia 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 through to bear on our independence.

We hereby confirm that we are independent with respect to the City within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of British Columbia as of the date of this letter.

This letter is intended solely for the use of Council and management and should not be used for any other purposes.

Yours truly,

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

BC/mkn

APPENDIX I - Communication Requirements

Required Communication	Audit Planning Letter	Audit Results Letter	Communication Completed
1. Our responsibilities under Canadian GAAS	✓		Y
2. Our audit strategy and audit scope	✓		Y
3. Fraud risk factors	✓		Y
4. Going concern matters		✓	N
5. Significant estimates or judgments		✓	N
6. Audit adjustments		✓	N
7. Unadjusted misstatements		✓	N
8. Omitted disclosures		✓	N
9. Disagreements with Management		✓	N
10. Consultations with other accountants or experts		✓	N
11. Major issues discussed with Management in regards to retention		✓	N
12. Significant difficulties encountered during the audit		✓	N
13. Significant deficiencies in internal control		✓	N
14. Material written communication between BDO and Management		✓	N
15. Any relationships which may affect our independence	✓		Y
16. Any illegal acts identified during the audit		✓	N
17. Any fraud or possible fraudulent acts identified during the audit		✓	N
18. Significant transactions with related parties not consistent with ordinary business		✓	N
19. Non-compliance with laws or regulations identified during the audit		✓	N
20. Limitations of scope over our audit, if any		✓	N
21. Written representations made by Management		✓	N
22. Any modifications to our opinion, if required		✓	N

APPENDIX J - Resources and Services

OTHER BDO SERVICES

Advisory

As Canada's leading financial advisory firm, BDO helps organizations and their management teams effectively assess, develop and manage strategic initiatives, such as:

Asset Reserve Policies - Asset reserves seem to be on everyone's agenda these days. Municipalities and Regional Districts across the country are asking themselves if they have enough money for infrastructure, how much they have, how much they will need and so on. BDO is excited to host interactive workshops on Managing Asset Reserves.

Internal Control Assessments - BDO has been engaged by many clients to perform a review and assessment of current processes and key internal controls over financial reporting (ICFR), as well as the structure of accounting/finance departments. The engagements include identification of gaps in control, as well as assessment of the current governance and reporting structure of the accounting/finance department.

Visit the following link to find out more:

<http://www.bdo.ca/en/Services/Advisory/Financial-Advisory/pages/default.aspx>

Indirect Tax

Government Entities operating in Canada are impacted by commodity taxes in some way or another. These include GST/HST, QST, PST, various employer taxes, and unless managed properly, can have a significant impact on your organization's bottom line. The rules for Government Entities can be especially confusing, and as a result many organizations end up paying more for indirect tax than they need to.

Government Entities must keep on top of changes to ensure they are taking advantage of the maximum refund opportunities. At BDO, we have helped a number of organizations of all sizes with refund opportunities, which can reduce costs for the organization and improve overall financial health.

For more information, please visit the following link:

<http://www.bdo.ca/en/Services/Tax/Indirect-Tax/pages/default.aspx>

Solutions

BDO Solutions provides accounting software management tools need to run a better operation. Our expert team understands the complex reporting requirements government entities must adhere to, as well as the limited resources they have to address these needs. Spend more time serving your constituents, better manage budgets, allocate time and resources more effectively and improve your ability to focus on the work that really matters to your organization.

For more information, please visit the following link:

<http://www.bdosolutions.com/ca/>



BDO PUBLICATIONS

BDO's national and international accounting and assurance department issues publications on the transition and application of Public Sector Accounting Standards. In addition, we offer a wide array of publications on Accounting Standards for Private Enterprises (ASPE), International Financial Reporting Standards (IFRS), and Accounting Standards for Not-for-profit organizations (ASNPO).

For additional information on PSAS, including links to archived publications and model financial statements, refer to the link below:

<http://www.bdo.ca/en/library/services/assurance-and-accounting/pages/default.aspx>.

MYPDR

Class is in session! Meeting Your Professional Development Requirements (MYPDR) is an educational program designed to support our clients, contacts and alumni in achieving their ongoing professional development requirements.

Through the MYPDR program, we are committed to providing timely, relevant topics that can support you in meeting your ongoing professional development needs. For more information on the MYPDR program or to register, please visit <http://www.cvent.com/d/34qqxp>.

APPENDIX K - Changes in Accounting Standards With Potential to Impact the City

The following summarizes the status of new standards and the changes to existing standards as of the fall of 2017. The Appendix also reviews Exposure Drafts, Statements of Principles, Projects and Post Implementation Reviews that provide information on the future direction of CPA Public Sector Accounting Handbook.

For the City, likely the most significant standard on the horizon relates to “Asset Retirement Obligations”. This standard is currently at the “Exposure Draft” stage which means that it will likely soon be finalized. The standard will require an assessment of all tangible capital assets (infrastructure, buildings, equipment, etc.) for costs that may be legally required to be incurred upon decommissioning of the asset. (The most common example is asbestos in buildings.) Further detail is provided below.

NEW STANDARDS - PSAS (NOT YET EFFECTIVE)

Amendments to the Introduction

PSAB amended the introduction to Public Sector Accounting Standards to clarify the applicability of the CPA PSA Handbook for various public sector entities. A government component, for example a provincial Ministry, that prepares standalone statements, would be directed to use PSAB effective on or after January 1, 2017.

Section PS 1201, Financial Statement Presentation

This Section revises and replaces Financial Statement Presentation, Section PS 1200. The following changes have been made to the Section:

- Remeasurement gains and losses are reported in a new statement;
- Other comprehensive income that can arise when a government includes results of government business enterprises and government business partnerships in its summary financial statements is reported in the statement of remeasurement gains and losses; and
- The accumulated surplus or deficit is presented as the total of the accumulated operating surplus or deficit and the accumulated remeasurement gains and losses.

Part of this standard will not have much of an impact until Section PS 3450 - Financial Instruments has been adopted.

The standard is effective for fiscal years beginning on or after April 1, 2012. In the case of governments, the new requirements are effective for fiscal years beginning on or after April 1, 2019. For entities with a December year end, this means that 2020 is the first year that the standard must be followed. However, we are expecting that the Standard will be further deferred. Earlier adoption is permitted.

Section PS 2200, Related Party Disclosures

This new Section defines a related party and establishes disclosures required for related party transactions.

A related party exists when one party has the ability to exercise control or shared control over the other. Two or more parties are related when they are subject to common control or shared control. Related parties also include individuals that are members of key management personnel and close family members.

- Disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered is not required.
- Two entities that have a member of key management personnel in common may be related depending upon that individual's ability to affect the policies of both entities in their mutual dealings.
- Disclosure is only required when transactions and events between related parties have or could have a material financial effect on the financial statements.
- Determining which related party transactions to disclosure is a matter of judgment based on the assessment of certain factors.

This Section is effective for fiscal periods beginning on or after April 1, 2017. For entities with a December year end, this means that 2018 is the first year that the standard must be followed. Earlier adoption is permitted.

Section PS 2601, Foreign Currency Translation

This Section revises and replaces *PS 2600, Foreign Currency Translation*. The following changes have been made to the Section:

- The definition of currency risk is amended to conform to the definition in *PS 3450, Financial Instruments*;
- The exception to the measurement of items on initial recognition that applies when synthetic instrument accounting is used is removed;
- At each financial statement date subsequent to initial recognition, non-monetary items denominated in a foreign currency that are included in the fair value category in accordance with Section PS 3450 are adjusted to reflect the exchange rate at that date;
- The deferral and amortization of foreign exchange gains and losses relating to long-term foreign currency denominated monetary items is discontinued;
- Until the period of settlement, exchange gains and losses are recognized in the statement of remeasurement gains and losses rather than the statement of operations; and
- Hedge accounting and the presentation of items as synthetic instruments are removed.

The new requirements are to be applied at the same time as *PS 3450, Financial Instruments*, and are effective for fiscal years beginning on or after April 1, 2012. In the case of governments, the new requirements have been delayed and are now effective for fiscal years beginning on or after April 1, 2019. For entities with a December year end this means 2020 is the first year that the standard must be followed. However, we expect that the standard will be further deferred. Earlier adoption is permitted.

Section PS 3041, Portfolio Investments

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.

This Section is to be applied for government organizations are effective for fiscal years beginning on or after April 1, 2012. In the case of governments, the new requirements are effective for fiscal years beginning on or after April 1, 2019. For entities with a December year end, this means that 2020 is the first year that the standard must be followed. Earlier adoption is permitted.

Section PS 3420, Inter-Entity Transactions

This new Section establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

The main features are:

- Inter-entity transactions involving the transfer of assets or liabilities should be recognized by both a provider and a recipient at carrying amount, exchange amount or fair value depending on the particular circumstances of each case.
- Inter-entity transactions in the normal course of operations or under a policy of cost allocation and recovery should be recognized on a gross basis at the exchange amount.
- A recipient may recognize unallocated costs as a revenue and expense at carrying amount, fair value or another amount based on existing policy, accountability structure or budget practice depending on the particular circumstances of each case.
- Information about inter-entity transactions would be disclosed in accordance with the new Section on related party disclosures.

This Section is effective for fiscal periods beginning on or after April 1, 2017. For entities with a December year end, this means that 2018 is the first year that the standard must be followed. Earlier adoption is permitted.

Section PS 3210, Assets

This new Section provides additional guidance on the definition of assets and establishes general disclosure standards for assets. Disclosure of types of assets that are not recognized is required.

However, this standard does not address intangible assets which are still not recognized under the PSAB accounting framework.

This Section is effective for fiscal periods beginning on or after April 1, 2017. For entities with a December year end, this means that 2018 is the first year that the standard must be followed. Earlier adoption is permitted.

Section PS 3320, Contingent Assets

This new Section defines and establishes disclosure standards on contingent assets. Disclosure about contingent assets is required when the occurrence of the confirming future event is likely.



This Section is effective for fiscal periods beginning on or after April 1, 2017. For entities with a December year end, this means that 2018 is the first year that the standard must be followed. Earlier adoption is permitted.

Section PS 3380, Contractual Rights

This new Section defines and establishes disclosure standards on contractual rights. Disclosure about contractual rights is required including the description about their nature and extent and the timing.

This Section is effective for fiscal periods beginning on or after April 1, 2017. For entities with a December year end, this means that 2018 is the first year that the standard must be followed. Earlier adoption is permitted.

Section PS 3430, Restructuring Transactions

This Section addresses a problem area for public sector accounting. In the past there was no Canadian standard that addressed acquisition of services and service areas, therefore, accountants looked to the US and international standards for guidance.

This new Section defines a restructuring transaction and establishes standards for recognizing and measuring assets and liabilities transferred in a restructuring transaction. A restructuring transaction is defined as a transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities, that does not involve an exchange of consideration based primarily on the fair value of the individual assets and liabilities transferred.

- The net effect of the restructuring transaction should be recognized as a revenue or expense by the entities involved.
- A recipient should recognize individual assets and liabilities received in a restructuring transaction at their carrying amount with applicable adjustments at the restructuring date.
- The financial position and results of operations prior to the restructuring date are not restated.
- A transferor and a recipient should disclose sufficient information to enable users to assess the nature and financial effects of a restructuring transaction on their financial position and operations.

This Section applies to restructuring transactions occurring in fiscal years beginning on or after April 1, 2018. For entities with a December year, end this means that 2019 is the first year that the standard must be followed. Earlier adoption is permitted.

Section PS 3450, Financial Instruments

PSAB approved amendments to *Section PS 3450, Financial Instruments*, to align the reporting of income on externally restricted assets that are financial instruments with the requirements in Section PS 3100, Restricted Assets and Revenues. The amendments clarify the application of Section PS 3100 (paragraphs PS 3100.11 - .12) when accounting for:

- A change in the fair value of a financial asset in the fair value category that is externally restricted;
- Income attributable to a financial instrument that is externally restricted; or
- A gain or loss associated with a financial instrument that is externally restricted.

These amendments recognize the importance of the nature of restrictions and the terms of contractual agreements in reporting such transactions and events when externally restricted assets and income are involved.

This new Section, although not as demanding as the private sector 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 remeasurement are reported in the statement of remeasurement gains and losses;
- Budget-to-actual comparisons are not required within the statement of remeasurement 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; and
- 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 for government organizations are effective for fiscal years beginning on or after April 1, 2012. In the case of governments, the new requirements have been delayed, mainly due to concerns of the senior government, and are effective for fiscal years beginning on or after April 1, 2019. For entities with a December year end this means 2020 is the first year that the standard must be followed. However, we expect that this Standard will be further deferred. Earlier adoption is permitted. This Standard should be adopted with prospective application except for an accounting policy related to embedded derivatives within contracts, which can be applied retroactively or prospectively.

Note also the exposure draft “Financial Instruments: Transition” (discussed below) that proposed clarification of some detailed aspects of the Financial Instruments standard.

EXPOSURE DRAFTS - PSAS

Asset Retirement Obligations: Deliberating (Closed for comment)

A new accounting standard that addresses the reporting of legal obligations associated with the retirement of tangible capital assets is required.

Reporting guidance on asset retirement obligations was covered in the pre-changeover accounting standards in Part V of the CPA Canada Handbook - Accounting. There is not yet specific accounting guidance in this area in the CPA Canada Public Sector Accounting (PSA) Handbook. Government organizations transitioning to the PSA Handbook would need guidance in this area.

This project will address the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets.



Revenue (Closed for comment)

Revenue recognition principles that apply to revenues of governments and government organizations other than government transfers and tax revenue require development.

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 project will address recognition, measurement and presentation of revenues that are common in the public sector.

INVITATIONS TO COMMENT - PSAB

Employment Benefits

Identified as the top priority in PSAB's 2014 Project Priority Survey, the Board has approved a project to review Section PS 3250, Retirement Benefits, and Section PS 3255, Post-employment Benefits, Compensated Absences and Termination Benefits. Since the issuance of these Sections decades ago, new types of pension plans have been introduced and there have been changes in the related accounting concepts.

The first stage of this project will involve looking at issues such as deferral of experience gains and losses, and discount rates. The second stage will involve determining how to account for shared risk plans, multi-employer defined benefit plans and vested sick leave benefits. Other improvements to existing guidance will also be considered.

A new, comprehensive Handbook Section on employment benefits will replace the two existing Sections.

STATEMENTS OF PRINCIPLES - PSAB

Concepts Underlying Financial Performance (Statement of principles being developed)

The conceptual framework in Sections PS 1000, Financial Statement Concepts, and PS 1100, Financial Statement Objectives, require review with a focus on measuring the financial performance of public sector entities.

This review was identified as a high priority in the Public Sector Accounting Board's (PSAB) 2010-2013 Strategic Plan in response to a suggestion from the senior government finance community.

This project will consider the concepts underlying the measure of financial performance. The review may result in amendments to the conceptual framework and could also affect Section PS 1201, Financial Statement Presentation.

Public Private Partnerships (Closed for comments)

Identified as a priority in PSAB's 2014 Project Priority Survey, the Board approved a project to develop authoritative guidance specific to public private partnerships.



In recent years, governments across Canada are increasingly using various forms of public private partnership arrangements for the provision of assets and delivery of services.

This project is expected to develop in two stages. The first stage will involve contemplating specific issues, including project scope, recognition and measurement of a public private partnership and disclosure requirements. Other issues will also be considered. The second stage will involve determining how to account for public private partnerships.

The objective is to develop a public sector accounting standard specific to public private partnerships.

PROJECTS - PSAB

Financial Instruments - Subsequent Issues

Since the issuance of Section PS 3450, Financial Instruments, there have been reports of transition and other issues that have been brought to the Public Sector Accounting Board's (PSAB) attention.

The objective of this project is to consider these issues as they arise.

POST IMPLEMENTATION REVIEW - PSAB

Government Transfers

This post-implementation review of Section PS 3410, Government Transfers, will help the Public Sector Accounting Board (PSAB) assess any implementation challenges encountered by stakeholders, and the nature, extent and cause of any ongoing issues.

This is the first post-implementation review undertaken by PSAB. Such reviews consider whether the standard has been implemented and achieved the intended objectives.

STATUS OF CURRENT PROJECTS - PSAB

Standards for public sector organizations	2017	2017	2018	2018
	Q3	Q4	Q1	Q2
Asset Retirement Obligations				
Concepts Underlying Financial Performance				
Employment Benefits		Invitation to Comment		
Financial Instruments - Subsequent Issues				
Public Private Initiative	Statement of Principles			
Revenue				
Impairment of Non-Financial Assets	Project Deferred			
PSA Handbook Terminology	Project Deferred			



NEW STANDARDS - AUDITING AND ASSURANCE STANDARDS BOARD (AASB)

Auditor Reporting

Users of audited financial statements are asking auditors to provide more information in their reports about significant matters in the financial statements, as well as about the conduct of the audit.

The International Auditing and Assurance Standards Board (IAASB) and the AASB believe that a quality audit should be accompanied by an informative auditor's report that delivers value to the entity's stakeholders. The IAASB has undertaken a project to revise the auditor reporting standard.

Revisions that the IAASB makes to its auditor reporting standard (i.e., ISA 700, Forming an Opinion and Reporting on Financial Statements) will be reflected in the equivalent CAS with limited Canadian-specific amendments, if any are necessary.

Auditor Reporting - Special Considerations

The IAASB is proposing amendments to ISA 800, Special Considerations - Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks, and ISA 805, Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement, resulting from significant revisions to its auditor reporting standards.

The IAASB will address the voluntary communication of key audit matters and naming the engagement partner in the auditor's report on a single financial statement or an element of a financial statement.

Revisions that the IAASB makes to these standards will be reflected in the equivalent CASs with limited Canadian-specific amendments, if any are necessary.

Auditor Reporting - Summary Financial Statements

The IAASB is proposing amendments to ISA 810, Engagements to Report on Summary Financial Statements, resulting from significant revisions to its auditor reporting standards.

The IAASB will address issues related to key audit matters, going concern and other information.

Revisions that the IAASB makes to this standard will be reflected in the equivalent CAS with limited Canadian-specific amendments, if any are necessary.

Financial Statement Disclosures

Financial statement disclosures have become more detailed and complex as a result of evolving financial reporting standards.

The International Auditing and Assurance Standards Board (IAASB) has commenced a project to develop guidance on the audit of financial statement disclosures.

The objective of the IAASB project is to gain robust understanding of the views and perspectives on issues relevant to auditing disclosures in a financial statement audit. The IAASB's objectives further include:

- determining whether revisions (in the form of new or revised requirements, or additional application material) to the International Standards on Auditing (ISAs) with respect to auditing disclosures are required;
- considering how such revisions should be presented (for example, within the relevant ISAs or in a separate ISA); and
- determining whether another type of non-authoritative guidance should be developed and, if so, developing the content.

The Auditing and Assurance Standards Board (AASB) is committed to adopting the ISAs. Revisions that the IAASB makes to the ISAs will be reflected in the equivalent Canadian Auditing Standards (CASs). Should the IAASB develop a new ISA, the AASB will adopt the standard in an equivalent CAS. Amendments, if any, that the AASB makes to the ISA wording would be in accordance with the AASB's criteria for such amendments, as set out in Appendix 1 of the Preface to the CPA Canada Handbook - Assurance.

Responsibilities Relating to Other Information

International Standard on Auditing (ISA) 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements, is being revised by the International Auditing and Assurance Board (IAASB) to ensure that it continues to be capable of enhancing the credibility of financial statements.

Revised ISA 720 will specify appropriate responsibilities of the auditor relating to the range of other information in documents containing audited financial information. Revisions will also be made to take into account how such information is disseminated.

The AASB is committed to adopting the ISAs. Accordingly, revisions that the IAASB makes to ISA 720 will be reflected in Canadian Auditing Standard (CAS) 720. Amendments, if any, that the AASB would make to the ISA wording would be in accordance with the AASB's criteria for such amendments, as set out in Appendix 1 of the Preface to the CPA Canada Handbook - Assurance.

EXPOSURE DRAFTS - AASB

Auditing Accounting Estimates (Closed for comments)

Accounting estimates and related disclosures have become more complex. Stakeholders have indicated that clearer or additional guidance is needed to enable auditors to appropriately deal with these complexities.

The International Auditing and Assurance Standards Board (IAASB) is proposing revisions to ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

The IAASB proposals include establishing more robust requirements and appropriately detailed guidance to foster audit quality. This would be done by driving auditors to perform appropriate procedures in relation to accounting estimates and related disclosures.

It is anticipated that these revisions would also seek to emphasize the importance of the appropriate application of professional skepticism.

Quality Control (Exposure draft being developed)

Auditors must effectively manage audit quality, both at the firm and the engagement level, with high-quality audits supporting financial stability.

Through consultations with stakeholders, the International Auditing and Assurance Standards Board (IAASB) identified a need to strengthen standards addressing quality control.

Therefore, the IAASB is proposing revisions to:

- ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*; and
- ISA 220, *Quality Control for an Audit of Financial Statements*.

The IAASB proposals includes revisions to these standards to:

- Strengthen and improve a firms' management of quality for all engagements by more explicitly incorporating a quality management approach, fostering the ability of the standards to be applied to a wide range of circumstances; and
- Focus on identifying, assessing and responding to quality risks in a broad range of engagement circumstances.

PROJECTS - AASB

Group audits

Many audits today are audits of group financial statements - also known as group audits - these type of engagements can be very challenging.

This is a result of complex group structures, cultural and language barriers, differences in laws and regulation, involvement of component auditors and many other factors.

The IAASB is proposing revisions to ISA 600, *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)* to:

- Strengthen the auditor's approach to planning and performance of a group audit; and
- Clarify the interaction of ISA 600 to the other ISAs.

Identifying and Assessing the Risks of Material Misstatement

There are challenges involved in identifying and assessing audit risks for entities — in particular, those that vary in size and nature. Clearer or additional guidance is needed to help address these challenges.

As a result, the International Auditing and Assurance Standards Board (IAASB) is proposing revisions to ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding of the Entity and its Environment*.



The IAASB proposal includes establishing more robust requirements and appropriately detailed guidance to drive auditors to perform appropriate risk assessment procedures in accordance with the size and nature of the entity. This would be done by focusing on enhancing the auditor's approach to understanding the entity and risk assessment activities in light of the changing environment.

It is anticipated that the IAASB will consider whether and how ISA 315, in organization and structure, can be modified to promote a more effective risk assessment.