



cutting through complexity

YEAR-END FINDINGS REPORT

THE CORPORATION OF THE CITY OF VICTORIA

Year-end Findings Report

For the year ended December 31, 2013

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I. Audit findings

Status

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures which include:

- completing our discussions with the Governance and Priorities committee
- obtaining evidence of the Council's approval of the financial statements
- receipt of signed management representation letter

Please refer to the draft financial statements for our draft audit report. We will update you on any significant matters arising from the completion of the audit, including completion of the above procedures. Our audit report will be dated upon completion of any remaining procedures.

Audit scope

Our responsibilities

- Our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter included in the appendices to this report.

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 year, materiality of \$3,500,000 has been determined.

Significant financial reporting risks

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

Estimates related to Contingent Liabilities

Risk of material misstatement

- Public sector accounting standards require that disclosure be made when contingent liabilities are likely or not determinable. Liabilities should be recorded when the loss can be reasonably estimated. Given the nature of contingent liabilities, there is often difficulty in estimation of the loss.
- The City is currently insured through the Municipal Insurance Association ("MIA") with a deductible of \$250,000. Prior to 2008, the City's insurance only covered claims in excess of \$1,000,000. Claims prior to 2008 are only covered to this extent.

- Management has prepared a general estimate of losses on identified claims of approximately \$1,100,000 (2012: \$968,000) based on the estimated deductibles in the MIA report and the estimated quantification on the claims prior to mid-2008. Disclosure of claims has been included in the financial statements.

Summary of planned audit approach

- We have performed inquiries with management, including the City Solicitor and obtained confirmations directly from the City's external legal counsel and MIA
- We concur with management's treatment of the above matters.

Timing

The following were the key dates of the audit:

Key deliverables and expected dates

Deliverables	Date(s)
Conduct year-end field work	March 3 - March 21
Provide audit opinion on financial statements	April 24

Significant audit, accounting and reporting matters

Significant audit and reporting matters and matters related to management's judgment and estimates

Estimate for retroactive pay

- The collective agreement between the City and the Firefighter's union expired on December 31, 2011. The collective agreement between the Victoria Police Board and the Police union expired on December 31, 2012. No new agreements have been settled as of March 2014. As a result, the Firefighters continue to be paid at 2011 rates and the Police at 2012 rates. When the agreement is settled, any increases to wages will have to be retroactively paid for services rendered in the related years of service.
- The collective agreement with the Firefighter's union covering the previous contract term up to December 31, 2011 was ratified on February 5, 2014. The retroactive pay that was paid was consistent with amounts accrued by management at December 31, 2013.
- Since the benefit of these services was realized by the City in past years, a liability is to be accrued for the estimated amount of the settlement.

<ul style="list-style-type: none"> Management has estimated the settlement based on their understanding of similar settlements of collective bargaining agreements in other municipalities across the province.
KPMG comments
<ul style="list-style-type: none"> We have reviewed management's calculations and assumptions and agree with their treatment.
Misstatements
<ul style="list-style-type: none"> No misstatements were noted.
Significant deficiencies
<ul style="list-style-type: none"> No significant deficiencies were noted.

Change order for Johnson Street Bridge
<ul style="list-style-type: none"> A change order for \$7.9m has been received from the contractor in regard to the Johnson Street Bridge contract. This has not been included in the estimated costs of \$92.8 million disclosed in the financial statements.
KPMG comments
<ul style="list-style-type: none"> As the change order has not been accepted by management, KPMG concurs with management's treatment. The current commitment disclosure for the estimated costs to complete the bridge is considered appropriate for the Johnson Street Bridge contract. It does not include any further costs that might be incurred in respect to this matter.
Misstatements
<ul style="list-style-type: none"> No misstatements were noted.
Significant deficiencies
<ul style="list-style-type: none"> No significant deficiencies were noted.

Tangible Capital Asset adjustment

- During a review of replacement costs by City staff, an error was identified in the base cost used for Domestic Water Services in 2009 when the City first recorded tangible capital assets. The estimated historical cost adjustment using the discounted model originally applied, results is a net book value difference that is less than materiality. This amount has not been adjusted given the high level of judgement and estimation involved in the original accounting.

KPMG comments

- Historical costs were based on estimates and best information at the time of adoption in 2009. Differences from actual were expected. Although this is an error resulting from data entry, it is not considered by management or KPMG to be material to the recorded value of tangible capital assets.
- Management indicates that a comprehensive review of replacement costs will be conducted in fiscal 2014 to relook at historical costs and ensure all assets are being accounted for appropriately, given the City now has five years of experience with tracking and recording costs for tangible capital assets.

Misstatements

- Given the significant amount of estimation used in determining historical costs for tangible capital assets, the effect of the error is not likely to impact any user's decisions on the overall financial statement results.

Significant deficiencies

- No significant deficiencies were noted.

Other matters

Summary of Audit Procedures
<ul style="list-style-type: none"> • Our audit focused on the areas identified during our audit planning as listed below: <ul style="list-style-type: none"> - Cash, investments and debt balances were confirmed with the respective financial institutions. - Taxation revenues, including those collected on behalf of other governments, were tested by way of substantive analytical procedures. An expectation was prepared based on the approved property tax rates and the assessed property values. - Government transfer revenues and deferred revenues were substantively tested by obtaining grant terms and conditions and testing to determine if the criteria in relation to the grants had been met. - Salaries and wage expense included a test of controls surrounding management review and verification as well as substantive analytical procedures. - Tangible capital asset additions and amortization were substantively tested. - Employee future benefit obligations were determined by actuaries. Confirmation was received from the actuary engaged by the City in regards to their work performed. Further, assumptions used by the actuary were investigated for reasonableness and consistency with accounting principles and source data used in preparing the estimate was tested on a sample basis. - Disclosures were reviewed for appropriateness of presentation and disclosure under Public sector accounting standards.
KPMG comments
<ul style="list-style-type: none"> • No changes were made from the audit planning strategy in conducting the 2013 audit.
Misstatements
<ul style="list-style-type: none"> • No misstatements were noted.
Significant deficiencies
<ul style="list-style-type: none"> • No significant deficiencies were noted.

RG Facilities event attendance and surcharge reporting

- We performed specified auditing procedures in connection with RG Facilities event attendance and surcharge reporting in the quarterly submissions to the City of Victoria at March 31, 2013 and June 30, 2013.
- We noted that the report submissions for the quarters ended March 31, 2013 and June 30, 2013 were both received by the City on November 7, 2013 and payment for both quarters was not received until December 17, 2013. This was not in compliance with the contract terms which require that the Ticket Revenue Share and the statement should be remitted to the City at the end of each quarter of a year.

KPMG comments

- There were no adjustments identified during our performance of the specified procedures.

Misstatements

- No misstatements were noted.

Significant deficiencies

- No significant deficiencies were noted.

Significant qualitative aspects of accounting practices

Significant accounting policies

- Significant accounting policies included in the financial statements are consistent from a year-to-year basis and are as disclosed in the notes to the financial statements.

Significant accounting estimates

- Management's process for identification and making accounting estimates included in the financial statements are consistent with prior year.

Significant disclosures

- Significant disclosures included in the financial statements are consistent with prior year.

Misstatements

Identification of misstatements

Misstatements identified during the audit have been categorized as follows:

Uncorrected misstatements

We have not identified misstatements that remain uncorrected.



II. Appendices

- A. Independence Letter
- B. Management representation letter
- C. PSAB Current Developments
- D. Engagement letter

Independence letter



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To the Mayor and Management of the Corporation of the City of Victoria

Professional standards specify that we communicate to you in writing all relationships between the City (and its related entities) and our firm, that may reasonably be thought to bear on our independence.

In determining which relationships to report, we are required to consider relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation, covering such matters as:

- a) provision of services in addition to the audit engagement
- b) other relationships such 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

Provision of services

The following summarizes the professional services rendered by us to the City (and its related entities) from January 01, 2013 up to the date of our auditors' report:

Description of Professional Service	Fees
Audit	
• Audits of the City's financial statements, School Tax compliance and Home Owner Grant Treasurer/Auditor Certificate inclusive of taxes.	\$55,500
• Third party contract compliance review	\$2,092

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards regarding to the threats to independence listed above:

- We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions
- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services and we have not made any management decisions or assumed responsibility for such decisions

Other relationships

We are aware of the following other relationships between our firm and the City (and its related entities) that have previously been communicated to you that may continue to reasonably be thought to bear on our independence from January 01, 2013 up to the date of our auditors' report:

Relationships	Safeguards
Long association of senior personnel with an assurance client	Involvement of a new audit manager, quality control review partner, changes in personnel at the City

Confirmation of independence

We confirm that we are independent with respect to the City (and its related entities) within the relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation from January 1, 2013 up to the date of our auditors' report.

Other matters

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

KPMG shall have no responsibility for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a long, horizontal, slightly wavy line.

Chartered Accountants

Management representation letter

Prior to release of the auditors' report, the Director of Finance and Manager of Accounting will be providing KPMG with a letter confirming their conclusion that the accounts are fairly presented, complete and accurately reported in the financial statements. A copy of this letter is included in the following pages.

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 period ended December 31, 2012.

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 02, 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, of shareholders, board of directors and committees of the board of directors 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 approve the corrected misstatements identified by you during the audit described in Attachment II.

Other:

- 8) We have complied with subsection 2 and 3 of section 124 of Part 8 of the School Act
- 9) 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

By: Suzanne Thompson, Acting Director of Finance

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 corrected audit misstatements

Corrected misstatements

	Income effect	Financial position		
Description	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Equity (Decrease) Increase
To adjust for an EFT payment that was initiated after year end but was included as an outstanding cheque. Amount was reclassified to accounts payable.	-	\$301,150	(301,150)	-

	Income effect	Financial position		
Description	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Equity (Decrease) Increase
Total corrected misstatements	-	\$301,150	(301,150)	-

Corrected misstatements in presentation and disclosure

PSAB Current Developments

Liability for Contaminated Sites

- New Accounting Standard, Liability for Contaminated Sites PS3260 has been approved by the PSAB and is effective for years commencing on or after April 1, 2014. Early adoption is encouraged.
- Governments will be required to recognize a liability for contaminated sites when the government is responsible for, or accepts responsibility for, the contamination, and the contamination exceeds existing environmental standards. The amount recorded as a liability must be reasonably estimable and would include costs directly related to the remediation activities and post-remediation costs that are an integral part of the remediation strategy. Costs related to asset purchases to be used in remediation would be included in the liability to the extent that the assets have no alternative use.

Financial Instruments and Foreign Currency Translation

- New Accounting Standards, Financial Instruments PS3450 and Foreign Currency Translation PS2601 have been approved by the PSAB and are effective for years commencing on or after April 1, 2015 for governments. Early adoption is permitted.
- Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds can be carried at cost or fair value depending on the government's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable.
- Hedge accounting is not permitted.
- A new statement, the Statement of Re-measurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations.

Revenue

- PSAB is proposing a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. A Statement of Principles was issued in 2013 and comments are currently under deliberation.
- An exposure draft is under development and expected for release in the 3rd quarter of 2014. Adoption of these principles would result in a need to assess current accounting policies.
- In the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.
- For unilateral revenues, recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Related Party Transactions

- The PSA Handbook currently has no specific accounting standards relating to Related Party Transactions. PSAB issued an exposure draft for a new standard on related party transactions; responses are currently under review and a revised draft is expected in spring 2014.
- Related parties include entities that control or are controlled by a reporting entity, entities that are under common control and entities that have shared control over or that are subject to shared control of a reporting entity.
- Individuals that are members of key management personnel and close members of their family are related parties. Disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered is not required.
- Determining which related party transactions to disclose is a matter of judgment based on assessment of:
 - the terms and conditions underlying the transactions;
 - the financial significance of the transactions;
 - the relevance of the information; and
 - the need for the information to enable users' understanding of the financial statements and for making comparisons.
- A related party transaction, with the exception of contributed goods and services, should normally be recognized by both a provider organization and a recipient organization on a gross basis.
- A reporting entity may either:
 - disclose information about contributed goods and services; or
 - recognize a revenue and expense if those goods and services would otherwise have been purchased.
- Related party transactions, if recognized, should be recorded at the exchange amount. A public sector entity's policy, budget practices or accountability structures may dictate that the exchange amount is the carrying amount, consideration paid or received or fair value.

Assets

- PSAB issued a Statement of Principles that proposes additional guidance on the definition of assets, disclosure requirements for assets and definitions of and standards on disclosure requirements for contingent assets and contractual rights.
- An exposure draft is under development and expected for release in the 3rd quarter of 2014. Adoption of these principles would result in a need to assess current accounting policies.

Asset Retirement Obligations

- A Statement of Principles is under development to address the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of long-lived tangible capital assets currently in productive use. The Statement of Principles is expected for release in the 2nd quarter of 2014.
- Recognition and measurement of the liability will be a major issue as will be accounting for the related expense.



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Brenda Warner, Director of Finance
The Corporation of the City of Victoria
City Hall
#1 Centennial Square
Victoria, BC V8W 1P6

November 2, 2010

Dear Ms Warner

The purpose of this letter is to outline the terms of our audit engagements of The Corporation of the City of Victoria (the "Entity") commencing for the period ending December 31, 2010:

- audit engagements for the financial statements
- audit of the Home Owner Grant reporting
- audit of the Entity's compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act.

This letter supersedes our previous letter to the Entity dated November 14, 2008. The terms of the engagement outlined in this letter will continue in effect from period to period, unless amended or terminated in writing. The attached Terms and Conditions form an integral part of the terms of this engagement and are incorporated herein by reference (collectively the "Engagement Letter").

FINANCIAL REPORTING FRAMEWORK

The financial statements will be prepared and presented in accordance with Canadian public sector accounting standards (hereinafter referred to as the "financial reporting framework").

The financial statements will include an adequate description of the financial reporting framework.

MANAGEMENT'S RESPONSIBILITIES

Management acknowledges and understands that they are responsible for:

- the preparation and fair presentation of the financial statements in accordance with the financial reporting framework referred to above;
- ensuring that all transactions have been recorded and are reflected in the financial statements;
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud;
- providing us with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;



Ms Brenda Warner, Director of Finance
The Corporation of the City of Victoria
November 2, 2010
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- providing us with additional information that we may request from management for the purpose of the audit;
- providing us with unrestricted access to persons within the Entity from whom we determine it necessary to obtain audit evidence;
- providing us with written representations required to be obtained under professional standards and written representations that we determine are necessary. Management also acknowledges and understands that professional standards require that we disclaim an audit opinion when management does not provide certain written representations required.

An audit does not relieve management or those charged with governance of their responsibilities.

AUDITORS' RESPONSIBILITIES REGARDING THE AUDIT

Our function as auditors of the Entity is:

- to express an opinion on whether the Entity's annual financial statements, prepared by management with the oversight of those charged with governance, are, in all material respects, in accordance with the financial reporting framework referred to above; and
- to report on the annual financial statements.

We will conduct the audit of the Entity's annual financial statements in accordance with Canadian generally accepted auditing standards and relevant ethical requirements, including those pertaining to independence (hereinafter referred to as applicable "professional standards"). We will plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

Accordingly, we will, among other things:

- identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the Entity and its environment, including the Entity's internal control. In making those risk assessments, we consider internal control relevant to the Entity's preparation 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 the Entity's internal control;
- obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks;
- form an opinion on the Entity's annual financial statements based on conclusions drawn from the audit evidence obtained;
- communicate matters required by professional standards, to the extent that such matters come to our attention, to the appropriate level of management, those charged with governance and/or Council. Refer to Appendix C for a listing of such matters and the form and timing of such communication.



Ms Brenda Warner, Director of Finance
The Corporation of the City of Victoria
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**AUDITORS' RESPONSIBILITIES REGARDING THE AUDIT OF THE HOME OWNER GRANT:
TREASURER/AUDITOR CERTIFICATE**

- We will also perform audit procedures with respect to the Home Owner Grant: Treasurer/Auditor Certificate (the "Certificate") in accordance with Canadian generally accepted auditing standards with the objective of expressing an opinion whether the financial information in the Certificate presents fairly, in all material respects, is in accordance with Section 12 of the Home Owner Grant Act. However, we cannot provide assurance that an opinion without reservation will be rendered. Circumstances may arise in which it is necessary for us to modify our audit report or withdraw from the audit engagement. In such circumstances, our findings or reasons for withdrawal will be communicated to the appropriate level of management, those charged with governance and/or Council
- The report will indicate that it is intended solely for the information and use of Council and management of the Entity and the Ministry of Community, Sport and Cultural Development and that it is not intended to be and should not be used by anyone other than these specified parties.

**AUDITORS' RESPONSIBILITIES REGARDING THE COMPLIANCE WITH SUBSECTIONS 2 AND 3 OF
SECTION 124 OF PART 8 OF THE SCHOOL ACT**

- We will also perform audit procedures with respect to the Entity's compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act in accordance with Canadian generally accepted auditing standards with the objective of expressing an opinion whether the Entity is compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act. However, we cannot provide assurance that an opinion without reservation will be rendered. Circumstances may arise in which it is necessary for us to modify our audit report or withdraw from the audit engagement. In such circumstances, our findings or reasons for withdrawal will be communicated to the appropriate level of management, those charged with governance and/or Council
- The report will indicate that it is intended solely for the information and use of the = Finance and Audit committee and management of the Entity and the Ministry of Community, Sport and Cultural Development and that it is not intended to be and should not be used by anyone other than these specified parties.

AUDITORS' DELIVERABLES

The expected form and content of our audit reports are provided in Appendix B. However, there may be circumstances in which a report may differ from its expected form and content.

**AUDITORS' AND MANAGEMENT'S RESPONSIBILITIES REGARDING CONTINUOUS DISCLOSURE
DOCUMENTS**

When the Entity intends to file an annual report and we are requested to consent to the use of the audit report on the Entity's financial statements, professional standards require that we read the information contained in the Annual report and consider whether such information is materially inconsistent with the related financial statements.



Ms Brenda Warner, Director of Finance
The Corporation of the City of Victoria
November 2, 2010
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Management is responsible for providing us with adequate notice of the preparation of the annual report and providing us with a copy, prior to issuance, of the Annual report. Furthermore, management has the responsibility for identifying subsequent events and providing appropriate disclosure in, or adjustment of, the financial statements as a result of such events as required by the financial reporting framework and for providing updated written representations to the date of our consent.

INCOME TAX COMPLIANCE AND ADVISORY SERVICES –

Tax compliance and advisory services are outside the scope of this letter. These services will be subject to the terms and conditions of a separate engagement letter.

FEES

Appendix A to this letter lists our fees for audit services to be performed under this Engagement Letter. Fees for tax compliance and advisory services are to be agreed with you when such services are requested.

* * * * *

We are available to assist the Entity, upon request, with a wide range of services beyond those outlined above. Additional services are subject to separate terms and arrangements.

We are proud to serve you and we appreciate your confidence in our work. We shall be pleased to discuss this letter with you at any time. If the arrangements outlined are in accordance with your requirements and if the above terms are acceptable to the Entity, please sign the duplicate of this letter in the space provided and return it to us.

Yours very truly

KPMG LLP

Chartered Accountants
Randy G Decksheimer
250.480.3515

Partner responsible for the engagement and its performance, and for the report that is issued on behalf of KPMG LLP, and who, where required, has the appropriate authority from a professional, legal or regulatory body

RGD/st
Enclosure

The terms of the engagement set out are as agreed:
THE CORPORATION OF THE CITY OF VICTORIA

Per: _____

Brenda Warner
Brenda Warner, Director of Finance

Date: Dec 8 2010



Appendix A—Fees for Professional Services

The Entity and KPMG agree to a fee based on actual hours incurred at mutually agreed-upon rates. The estimated fee for the services described in this letter, in the initial 2010 reporting year, is \$49,500.



Appendix B—Expected Form of Reports

INDEPENDENT AUDITORS' REPORT

To the Mayor and Council

We have audited the accompanying consolidated financial statements of The Corporation of the City of Victoria ("the Entity"), which comprise the statement of financial position as at December 31, 2010, and the consolidated statements of operations and accumulated surplus, change in net financial position and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements 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. In making those risk assessments, the auditor considers internal control relevant to the Entity's 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Corporation of the City of Victoria as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



Appendix B—Expected Form of Reports (cont)

INDEPENDENT AUDITORS' REPORT

To the Ministry of Community, Sport and Cultural Development

We have audited the accompanying Home Owner Grant: Treasurer/Auditor Certificate (the "Certificate") for the Corporation of the City of Victoria (the "Entity"), for the year ended December 31, 2010. The Certificate has been prepared by management based under the provisions of Section 12 of the Home Owner Grant Act.

MANAGEMENT'S RESPONSIBILITY FOR THE CERTIFICATE

Management is responsible for the preparation of the Certificate in accordance with the provisions of Section 12 of the Home Owner Grant Act, and for such internal control as management determines is necessary to enable the preparation of the Certificate that is free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the Certificate based on our audit. We conducted 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 Certificate is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Certificate. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Certificate, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation of the Certificate 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 the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Certificate.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial information in the Certificate is prepared, in all material respects, in accordance with the provisions of Section 12 of the Home Owner Grant Act.

RESTRICTION ON DISTRIBUTION

The Certificate is prepared to meet the requirements under the provisions of Section 12 of the Home Owner Grant Act. As a result, the Certificate may not be suitable for another purpose. Our report is intended solely for the Entity and the Ministry of Community, Sport and Cultural Development and should not be distributed to parties other than the Entity or the Ministry of Community, Sport and Cultural Development.



Appendix B—Expected Form of Reports (cont)

AUDITORS' REPORT ON SUBSECTIONS 2 AND 3 OF SECTION 124 OF PART 8 OF THE SCHOOL ACT TO THE MINISTRY OF COMMUNITY, SPORT AND CULTURAL DEVELOPMENT

At the request of the Corporation of the City of Victoria (the “Entity”), we have audited the Entity’s compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act for the year ended December 31, 2010. Compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act is the responsibility of the Entity’s management. Our responsibility is to express an opinion on this compliance based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the Entity complied with subsections 2 and 3 of section 124 of Part 8 of the School Act. Such an audit includes examining, on a test basis, evidence supporting compliance, evaluating the overall compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act and, where applicable, assessing the accounting principles used and significant estimates made by management.

In our opinion, the Entity has complied, in all material respects, with subsections 2 and 3 of section 124 of Part 8 of the School Act for the year ended December 31, 2010.



Appendix C—Matters to Communicate

Matters required to be communicated under professional standards to the appropriate level of management include:

Engagement partner

- identity and role of the engagement partner.

Fraud and non-compliance with laws and regulations

- any identified fraud or any information obtained that indicates that a fraud may exist.
- any identified non-compliance with laws or regulations or suspected non-compliance.

Control deficiencies

- any significant deficiencies in the Entity's internal control that we intend to communicate to those charged with governance unless it would be inappropriate to communicate directly to management in the circumstances.
- other deficiencies in internal control that have not been communicated to management by other parties and that, in our professional judgment, are of sufficient importance to merit management's attention.

Misstatements

- any accumulated misstatements, other than those that are clearly trivial. Furthermore, we request that management correct all misstatements communicated.

Matters required to be communicated, on a timely basis, under professional standards to those charged with governance include:

Engagement partner

- identity and role of the engagement partner.

Audit approach

- an overview of the planned scope and timing of the audit.

Fraud and non-compliance with laws and regulations

- any identified fraud or suspected fraud that may exist involving management, employees who have significant roles in internal control, or others where the fraud results in a material misstatement in the annual financial statements.
- any matters related to fraud that are, in our judgment, relevant to your responsibilities.



Appendix C—Matters to Communicate (cont)

- any identified non-compliance with laws or regulations or suspected non-compliance, other than when the identified or suspected non-compliance is clearly inconsequential.

Control deficiencies

- any significant deficiencies, in writing, in the Entity's internal control.

Misstatements

- any accumulated uncorrected misstatements (amounts or disclosures) other than those that are clearly trivial. Furthermore, we request all uncorrected misstatements be corrected.

Accounting practices

- our views about significant qualitative aspects of the accounting practices including accounting policies, accounting estimates and financial statement disclosures.

Significant difficulties

- any significant difficulties that we encountered during the audit. For example, if we conclude that management's refusal to allow us to send a confirmation request is unreasonable or when we are unable to obtain relevant and reliable audit evidence from alternative audit procedures.

Significant matters

- significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management (e.g., management's consultation with other accountants, major issues discussed with management prior to retention or any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the financial statements or report thereon).
- other significant matters arising from the audit, if any, that, in our professional judgment, are significant to the oversight of the financial reporting process, including those significant matters arising from the audit in connection with the Entity's related parties.
- instances where our evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work.
- any limitations on the group audit, for example, where our access to information may have been restricted.

Management representations

- copies of written representations requested from management.

Going concern

- events or conditions identified that may cast significant doubt on the Entity's ability to continue as a going concern.



Appendix C—Matters to Communicate (cont)

Reporting

- any expected modifications to the audit report.
- any expected emphasis of matter or other paragraphs in the audit report.
- management refuses to remove a scope limitation in the audit.

Other information

- any revision necessary to, or material misstatement of fact included in, financial and non-financial information which is included, either by law, regulation or custom, in a document containing the audited financial statements and our audit report thereon (“other information”) that we identified when reading such information, which management refuses to correct.
- any significant matters resulting from the procedures performed in accordance with professional standards on the other information.
- our responsibilities with respect to other information in documents containing audited financial statements.
- any identified non-compliance with laws or regulations or suspected non-compliance where we suspect that management or those charged with governance are involved (to be reported to the mayor).

Note: Significant findings from the audit will be communicated in writing if, in our professional judgment, oral communication would not be adequate.

Appendix D—Terms and Conditions for Assurance Engagements

The Terms and Conditions are an integral part of the accompanying engagement letter from KPMG that identifies the engagement to which they relate (and collectively form the "Engagement Letter"). The Engagement Letter supersedes all written or oral representations on this matter.

1. SEVERABILITY.

If any of the provisions of this Engagement Letter are determined to be invalid or unenforceable, the remaining provisions shall remain in effect and be binding on the parties to the fullest extent permitted by law.

2. GOVERNING LAW.

This Engagement Letter shall be subject to and governed by the laws of the province where KPMG's principal office performing this engagement is located (without regard to such province's rules on conflicts of law) and all disputes arising hereunder or related thereto shall be subject to the exclusive jurisdiction of the courts of such province of Canada.

3. LLP STATUS.

KPMG LLP is a registered limited liability Partnership ("LLP") established under the laws of the Province of Ontario and, where applicable, has been registered extra-provincially under provincial legislation. KPMG is a partnership, but its partners have a degree of limited liability. A partner is not personally liable for any debts, obligations or liabilities of the LLP that arise from a negligent act or omission by another partner or of any other person under that other partner's direct supervision or control. The legislation relating to limited liability partnerships does not, however, reduce or limit the liability of the firm. The firm's insurance exceeds the mandatory professional indemnity insurance requirements established by the various Institutes/Ordre of Chartered Accountants. Subject to the other provisions hereof, all partners of the LLP remain personally liable for their own actions and/or actions of those they directly supervise or control.

4. DOCUMENTS AND CONFIDENTIAL INFORMATION.

Management's cooperation in providing us with documents and related information and agreed-upon assistance on a timely basis is an important factor in being able to issue our report. KPMG shall be entitled to share all confidential information with all member firms of KPMG International performing services hereunder. All work papers, files and other internal materials created or produced by KPMG during the engagement and all copyright and intellectual property rights in our work papers are the property of KPMG.

5. INFORMATION PROCESSING OUTSIDE OF CANADA.

Personal and/or confidential information (e.g. entries into KPMG's time and billing system and into KPMG's conflicts database) collected by KPMG during the course of this engagement may be processed and stored outside of Canada by KPMG, KPMG International member firms performing services hereunder or third party processors. Such personal and/or confidential information may be subject to disclosure in accordance with the laws applicable in the jurisdiction in which the information is processed or stored which laws may not provide the same level of protection for such information as will Canadian laws.

6. PERSONAL INFORMATION CONSENTS AND NOTICES.

KPMG may be required to collect, use and disclose personal information about individuals during the course of this engagement. The Entity represents and warrants that: (i) it will obtain from individuals all consents required by law to permit KPMG to collect, use and disclose all personal information reasonably required in the course of the engagement, and (ii) it has provided notice of KPMG's potential processing of information outside of Canada (as described in paragraph 5 above) to all individuals whose personal information is disclosed to KPMG.

7. OFFERS OF EMPLOYMENT.

In order to allow issues of independence to be addressed, management agrees that prior to extending an offer of employment to any KPMG partner, employee or contractor, the matter is communicated to the engagement partner or associate partner.

8. OFFERING DOCUMENTS.

If the Entity wishes to include or incorporate by reference the financial statements and our report thereon in an offering document, we will consider consenting to the use of our report and the terms thereof at that time. Prior to issuing any consent, comfort or advice letter, if any, we will be required to perform procedures as required by professional standards. Management agrees to provide us with adequate notice of the preparation of such documents.

9. FEE ARRANGEMENTS.

KPMG's estimated fee is based on the quality of the Entity's accounting records, the agreed-upon level of preparation and assistance from the Entity's personnel, and adherence to the agreed-upon timetable. KPMG's estimated fee also assumes that the Entity's 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 financial reporting, internal control over financial reporting or other reporting issues. KPMG will inform the Entity on a timely basis if these factors are not in place. Additional time may be incurred for such matters as significant issues, significant unusual and/or complex transactions, informing management about new professional standards, and any related accounting advice. Where these matters arise and require research, consultation and work beyond that included in the estimated fee, the Entity and KPMG agree to revise the estimated fee. No significant additional work will proceed without management's concurrence, and, if applicable, without the concurrence

of those charged with governance. Upon completion of these services KPMG will review with the Entity any fees and expenses incurred in excess of KPMG's estimate, following which KPMG will render the final billing. Routine administrative expenses such as long distance telephone calls, photocopies, fax charges, printing of statements and reports, postage and delivery and secretarial and report department assistance will be charged on the basis of a percentage of KPMG's professional costs. Other disbursements for items such as travel, accommodation and meals will be charged based on KPMG's actual disbursements.

KPMG's invoices are due and payable upon receipt. Amounts overdue are subject to interest. In order to avoid the possible implication that unpaid fees might be viewed as creating a threat to KPMG's independence, it is important that KPMG's bills be paid promptly when rendered. If a situation arises in which it may appear that KPMG's independence is threatened because of significant unpaid bills, KPMG may be prohibited from signing the report and, if applicable, any consent.

Fees for any other services will be billed separately from the services described in this engagement letter and may be subject to written terms and conditions supplemental to those in this letter.

10. LEGAL PROCESSES.

The Entity on its own behalf acknowledges and agrees to cause its subsidiaries and its affiliates to acknowledge that KPMG may, from time to time:

- be required, pursuant to subpoena or other legal process, or may agree to a request by the Entity, to provide information and copies of documents in KPMG's files, including KPMG's working papers and other work-product relating to the Entity, its subsidiaries and/or its affiliates ("Information and Documentation") in judicial or administrative proceedings to which KPMG is not a party; and
- receive requests or orders from judicial, administrative, professional, securities or other regulatory or governmental authorities (both in Canada and abroad, including without limitation the Canadian Public Accountability Board) ("Requesting Authority") to provide them with Information and Documentation.

In such situations, the Entity on its behalf consents and agrees to cause its subsidiaries and affiliates to consent to KPMG providing Information and Documentation without further reference to, or authority from, the Entity or its subsidiaries and affiliates. If a request or order is directly related to an inspection or investigation of the Entity or its subsidiaries and affiliates, KPMG will advise the Entity or its subsidiaries and affiliates of the request or order, except where prohibited by law from doing so.

KPMG will not provide to the Requesting Authority Information and Documentation over which the Entity or its subsidiaries and affiliates have expressly asserted privilege, except a) with the Entity's consent, b) where required by law, or c) where requested by a provincial Institute/Ordre of Chartered Accountants pursuant to its statutory authority. The Entity or its subsidiaries and affiliates will mark any document over which the Entity or its subsidiaries and affiliates assert privilege as "privileged".

KPMG may also be required to provide Information and Documentation to a Requesting Authority relating to the fees that KPMG charges or collects from the Entity or its subsidiaries and affiliates for the provision of audit services, other accounting services and non-audit services, and the Entity on its behalf consents and agrees to cause its subsidiaries and affiliates to consent to the disclosure of that Information and Documentation to that Requesting Authority.

The Entity or its subsidiaries and affiliates shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable legal fees, incurred in dealing with the matters described above.

11. KPMG INTERNATIONAL MEMBER FIRMS.

The Entity agrees that any claims that may arise out of this engagement will be brought solely against KPMG, the contracting party and not against any other KPMG International Cooperative ("KPMG International") member firms participating in this engagement.

12. CONNECTING TO THE ENTITY'S IT NETWORK.

KPMG personnel are authorized to connect their computers to the Entity's IT Network, subject to any restrictions communicated to KPMG from time to time. Connection to the Entity's IT Network or the Internet via the Network, while at the Entity's premises, will be for the express purpose of conducting normal business activities, primarily relating to facilitating the completion of work referred to in this letter.

13. DELIVERABLES OR COMMUNICATIONS.

KPMG may issue other deliverables or communications as part of the services described in this Engagement Letter. Such deliverables or communications may not be included in, summarized in, quoted from or otherwise used or referred to, in whole or in part, in any documents or public oral statement.

KPMG expressly does not consent to the use of any communication, report, statement or opinion prepared by us on the interim financial statements and such communication, report, statement or opinion may not be included in, summarized in, quoted from or otherwise used in any document or public oral statement.

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