

The Corporation of the City of Victoria

Audit Results and Communications
Report to the Committee of the Whole

For the fiscal year ended December 31, 2015

April 25, 2016



BDO Canada LLP
Chartered Professional Accountants

500 - 1803 Douglas St.
Victoria, BC, V8T 5C3
(250)383-0426 F(250)383-1091

April 25, 2016

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

Dear Members of Council:

We are pleased to present the results of our audit of the financial statements of the Corporation of the City of Victoria (the "City") for the year ended December 31, 2015. The purpose of our report is to summarize certain aspects of the audit that we believe to be of interest to the Members of Council and should be read in conjunction with the draft financial statements.

Our audit and therefore this report will not necessarily identify all matters that may be of interest to the Council in fulfilling its responsibilities.

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.

We wish to express our appreciation for the co-operation we received during the audit from the City's management and staff that assisted us in carrying out our work. We look forward to discussing the contents of this report and any other matters that you consider appropriate.

Yours truly,

A handwritten signature in blue ink that reads "Bill Cox". The signature is written in a cursive, flowing style.

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

BC/



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EXECUTIVE SUMMARY

Audit Results	<p>Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance as to whether the financial statements are free of material misstatement.</p> <p>A detailed description of our audit results has been included on page 7.</p>
Status of Audit	<p>As of the date of this final report, we have substantially completed our audit of the December 31, 2015 financial statements pending the completion of the items highlighted below. These items will need to be completed prior to issuance of our audit report on the financial statements:</p> <ul style="list-style-type: none"> • Receipt of the signed management representation letter • Subsequent events review through to financial statement approval date • Acceptance of financial statements by Council
Audit Risks	<p>In accordance with our audit plan, our procedures focused on the following areas that we identified as containing risks of material misstatements:</p> <ul style="list-style-type: none"> • Risk of Management Override • Cash and Investments • Staff Salaries • Tangible Capital Assets and Accumulated Amortization • Employee Future Benefits • Deferred Revenue and Government Grants • Contaminated Sites <p>We have summarized the results of our audit procedures for each of these risk areas, beginning on page 7 of this report.</p>
Internal Control Over Financial Reporting	<p>We did not identify any significant deficiencies in internal controls over financial reporting during the year ended December 31, 2015 that we considered to be material weaknesses.</p>
Fraud and Illegal Activities	<p>We developed procedures within our audit plan as recommended by CAS 240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements. Based on these procedures, we have not encountered any illegal activities or fraudulent events with respect to the City.</p>
Significant Events	<p>As of the date of this letter, we have not identified any significant events which we believe should be brought to your attention.</p>
Significant Accounting Policies	<p>The City's significant accounting policies are listed in the financial statements. We believe management's selection of accounting policies is appropriate under Canadian public sector accounting standards.</p>

Estimates	<p>Accounting estimates are an integral part of the financial statements and are based on management's current judgments. These judgments are based on knowledge and experience about past and current events, assumptions about future events and interpretations of the financial reporting standards.</p> <p>Our comments on the significant estimates included in the financial statements are included on page 9 of this report.</p>
Audit Adjustments and Unadjusted Differences	<p>Our final materiality level of \$3,300,000 did not change from our planning materiality of \$3,300,000 in our audit planning letter presented to the Council on February 9, 2016.</p> <p>There are no unadjusted misstatements for the year ended December 31, 2015.</p> <p>There were no year end audit adjustments.</p>
Disclosures	<p>There are no material omissions with respect to the disclosures in the financial statements for the year ended December 31, 2015 that we have noted.</p>
Independence	<p>We have developed appropriate safeguards and procedures to mitigate threats to our independence. 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 would report to you regarding all relationships between the City and our firm that, in our professional judgment, may reasonably be thought to bear on our independence. We confirmed our independence to the Council for the year ended December 31, 2015 in our Planning Report dated February 9, 2016. We confirm that we are still independent as of the date of this letter.</p>
Representation Letter	<p>A draft version of the representation letter to be signed by management is included in Appendix C.</p>
Conclusion	<p>We intend to issue an unmodified audit report on the financial statements for the year ended December 31, 2015 once the outstanding items referred to above are satisfactorily resolved and the financial statements are acceptance the Council.</p>



INDEPENDENCE

We have confirmed our independence to the Council for the year ended December 31, 2015 in our Planning Report dated February 9, 2016. We confirm that we are still independent as of the date of this letter.

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.

We communicated to you our planning materiality levels in our Planning Report to the Council. Our materiality levels did not change from our audit planning letter presented to the Council on February 9, 2016. Final materiality was \$3,300,000 based on 1.5% of normalized revenues.

There were no corrected and uncorrected misstatements identified during our audit which we determined to be above "clearly trivial". Misstatements are considered to be clearly trivial for purposes of the audit when they are inconsequential both individually and in aggregate.

AUDIT FINDINGS

Based on our knowledge of the City's operations, our past experience in similar organizations, and knowledge gained from management and the 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.

As part of our ongoing communications with you, we are required to have a discussion on our views about significant qualitative aspects of the City's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

ACCOUNTING AND AUDIT MATTERS

Management Override of Controls

Risk	Approach	Results
<p>Management is in a unique position to perpetrate fraud because of management's ability to directly or indirectly manipulate accounting records, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>This risk is required for all audits pursuant to Canadian audit standards.</p>	<p>We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p>	<p>All audit testing in this area was executed as planned and no errors were noted.</p>

Cash and Investments

Risk	Approach	Results
<p>Due to its nature, cash and investments are almost always considered to be a risk area in any audit.</p>	<p>We reviewed the year end reconciliations and obtained third party confirmations.</p>	<p>All audit testing in this area was executed as planned and no errors were noted.</p>

Staff Salaries

Risk	Approach	Results
<p>A significant single type of expenditure that cover many employees and departments. As a municipality, this figure is often of particular interest to financial statement users (taxpayers).</p>	<p>We applied computer audit testing to analyze all payroll transactions in the year. We performed system testing, tests of controls and analytical review of staff salaries.</p>	<p>All audit testing in this area was executed as planned and no errors were noted.</p>

Tangible Capital Assets and Accumulated Amortization

Risk	Approach	Results
Estimates of the useful lives of tangible capital assets owned by the City require regular evaluation to determine if they are still appropriate. This involves a high level of estimation and coordination of the finance department with other departments.	<p>We performed tests of control for appropriate authorization of purchases combined with substantive testing of additions and disposals and amortization calculations.</p> <p>We reviewed the useful lives of existing assets for reasonableness.</p>	All audit testing in this area was executed as planned and no errors were noted.

Employee Future Benefits

Risk	Approach	Results
These amounts represent the liability owed to the City's employees for their post-employment benefits. This is a complex area that requires estimation and reliance on actuarial experts.	<p>We reviewed the actuarial reports and audited significant assumptions.</p> <p>We reviewed all financial statement disclosures and ensured the information was appropriately presented.</p>	All audit testing in this area was executed as planned and no errors were noted.

Deferred Revenue and Government Grants

Risk	Approach	Results
There is a risk that revenue may be incorrectly deferred into future periods or vice versa.	<p>We reviewed a sample of deferred revenue balances by examining supporting documentation to validate the accounting treatment.</p> <p>We reviewed grant agreements to ensure that revenue is being recognized in accordance with latest revenue recognition standards.</p> <p>We reviewed minutes to determine whether any contributions received should be deferred and whether any grants had not yet been recorded.</p>	All audit testing in this area was executed as planned and no errors were noted.

Contaminated Sites

Risk	Approach	Results
The City is required to adopt the new standard PS 3260 - Contaminated Sites for the current year financial statements. There is a risk that the standard may not be correctly applied, leading to a liability not being completely or accurately accounted for.	<p>We reviewed management's process to identify and estimate any obligations under the standard.</p> <p>We reviewed all financial statement disclosures and ensured the implementation of the new standard was appropriate.</p>	<p>All audit testing in this area was executed as planned.</p> <p>There was no liability to the City as a result of the new standard. The financial statement disclosures were appropriate.</p>

SIGNIFICANT ACCOUNTING ESTIMATES

Management is responsible for determining the City's significant accounting policies. The choice between accounting policy alternatives can have a significant effect on the financial position and results of the organization. The application of those policies often involves significant estimates and judgments by management. Based on the audit work that we have performed, it is our opinion that the estimates in the financial statements are reasonable and the disclosures relating to accounting estimates are in accordance with Canadian public sector accounting standards.

UNADJUSTED DIFFERENCES

There were no significant unadjusted differences or disclosure omissions identified through the course of our audit engagement.

AUDIT ADJUSTMENTS

There was no adjusting entries proposed as a result of our audit, however we did propose several adjustments to the disclosures in the financial statements. To increase the readability and transparency to Council, ratepayers and other users, changes were made to several notes. These changes included structural adjustments to the long-term debt note, employee future benefit liability note, taxation note as well as the financial plan note and minor adjustments to others.

There was also assistance provided in recording the sale of the 120 Gorge Road East property. The application of the accounting standards and presentation of the transaction was developed in concert with our team.

MANAGEMENT REPRESENTATIONS

During the course of our audit, management made certain representations to us. These representations were verbal or written and therefore explicit, or they were implied through the financial statements. Management provided representations in response to specific queries from us, as well as unsolicited representations. Such representations were part of the evidence gathered by us to be able to draw reasonable conclusions on which to base our audit opinion. These representations were documented in our audit working papers through memoranda of discussions with management, as well as by written representations received from management. A copy of the representation letter we have requested from management is included in Appendix C of this report.



FRAUD DISCUSSION

Canadian auditing standards require us to discuss fraud risk with the Council on an annual basis. We discussed it in our Planning Report dated February 9, 2016. Currently, we are not aware of any actual, suspected or alleged fraud. If you are aware of any instances of actual, suspected or alleged fraud affecting the City since the date of our previous discussion, please advise us at bcox@bdo.ca.

AUDITOR'S RESPONSIBILITIES FOR DETECTING FRAUD

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

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 our audit, we performed the following procedures in order to fulfill our responsibilities:

- Inquire of management, Council, and others related to any knowledge of fraud, suspected fraud or alleged fraud;
- Perform disaggregated analytical procedures and consider unusual or unexpected relationships identified in the planning of our audit;
- Incorporate an element of unpredictability in the selection of the nature, timing and extent of our audit procedures; and
- Perform additional required procedures to address the risk of management's override of controls including:
 - Test internal controls designed to prevent and detect fraud;
 - Examine a sample of journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud;
 - Review accounting estimates for biases that could result in material misstatements due to fraud, including a retrospective review of significant prior years' estimates; and
 - Evaluate the City's rationale for significant unusual transactions.



INTERNAL CONTROL MATTERS

During the course of our audit, we performed the following procedures with respect to the City's internal control environment:

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

The results of these procedures were considered in determining the extent and nature of substantive audit testing required.

We are required to report to you in writing, significant deficiencies in internal control that we have identified during the audit. A significant deficiency is defined as a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

As the purpose of the audit is for us to express an opinion on the City's financial statements, our audit cannot be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be exhaustive. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

DEFICIENCIES IN INTERNAL CONTROL

Deficiency	Issue and Impact
None noted.	None noted.

While there are no significant deficiencies in internal controls noted, we do take the opportunity to comment on non-critical matters in our management letter that is included in Appendix D.

APPENDIX A - Other Required Communications

Required Communication	Audit Planning Presentation	Audit Results Presentation	Auditor Comments
1. Our responsibilities under Canadian Auditing Standards (CAS)	✓		Included in our engagement letter dated November 24, 2015.
2. Our audit strategy and audit scope	✓		Included in our Planning Report which was presented to the Council on February 9, 2016.
3. Fraud risk factors	✓		Included in our Planning Report which was presented to the Council on February 9, 2016.
4. Going concern matters		✓	None.
5. Significant estimates or judgments		✓	See Page 9.
6. Audit adjustments		✓	None noted.
7. Unadjusted differences		✓	None noted.
8. Omitted disclosures		✓	None noted.
9. Disagreements with management		✓	There were no disagreements with management.
10. Consultations with other accountants or experts		✓	No external experts were consulted during this engagement.
11. Major issues discussed with management in regards to retention		✓	None.
12. Significant difficulties encountered during the audit		✓	No significant difficulties were encountered during our audit.
13. Significant deficiencies in internal control		✓	No significant deficiencies were noted.

Required Communication	Audit Planning Presentation	Audit Results Presentation	Auditor Comments
14. Material written communication between BDO and management		✓	No material written communications were noted.
15. Any relationships which may affect our independence	✓	✓	No independence issues noted.
16. Any illegal acts identified during the audit		✓	No illegal activities identified through the audit process.
17. Any fraud or possible fraudulent acts identified during the audit	✓	✓	No fraud identified through the audit process.
18. Significant transactions with related parties not consistent with ordinary business operations		✓	None noted.
19. Non-compliance with laws or regulations identified during the audit		✓	No legal or regulatory non-compliance matters were noted as part of our audit.
20. Limitations of scope over our audit, if any		✓	None.
21. Written representations made by management		✓	See Appendix C.
22. Any modifications to our opinion, if required		✓	Please see our draft independent auditor's report included in Appendix B.

APPENDIX B - Draft Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Corporation of the City of Victoria, which comprise the Statement of Financial Position as at December 31, 2015, and the Statements of Operations, Change in Net Financial Assets and Cash Flow 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 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 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 the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 financial statements present fairly in all material respects, the financial position of the Corporation of the City of Victoria as at December 31, 2015 and its results of operations, cash flows and changes in net financial assets for the year then ended, in accordance with Canadian public sector accounting standards.

Other Matters

The comparative figures presented in these financial statements for the year ended December 31, 2014 were audited by another firm of Chartered Professional Accountants who expressed an unmodified opinion in their report dated April 24, 2015.

Chartered Professional Accountants
Victoria, British Columbia
April 21, 2016

APPENDIX C - Representation Letter

Date of Council Approval

BDO Canada LLP
Chartered Professional Accountants
1803 Douglas Street – Fifth Floor
Victoria, BC V8T 5C3

Dear Sirs/Mesdames:

This representation letter is provided in connection with your audit of financial statements of the Corporation of the City of Victoria (the “City”) for the year ended December 31, 2015, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position as at December 31, 2015, and the results of operations and cash flows for the year ended December 31, 2015 of the City in accordance with Canadian public sector accounting standards.

We confirm that to the best of our knowledge and belief:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated November 24, 2015, for the preparation of the financial statements in accordance with Canadian public sector accounting standards, in particular the financial statements are fairly presented in accordance therewith.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value are reasonable.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Public sector accounting standards.
4. All events subsequent to the date of the financial statements and for which Public sector accounting standards require adjustment or disclosure have been adjusted or disclosed.
5. The financial statements of the City use appropriate accounting policies that have been properly disclosed and consistently applied.

Information Provided

6. We have provided you with:
 - access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
7. We are responsible for the design, implementation and maintenance of internal controls to prevent, detect and correct fraud and error, and have communicated to you all deficiencies in internal control of which we are aware.

8. The minute books of the Council are a complete record of all meetings and resolutions of the Council throughout the year and to the present date.
9. We have disclosed to you all significant matters contained in the minutes of all meetings and resolutions of Council throughout the year and to the present date.
10. All transactions have been recorded in the accounting records and are reflected in the financial statements.
11. We have disclosed to you all known instances of non-compliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
12. We have identified to you:
 - guarantees;
 - indemnifications against damages, liabilities, costs, charges or expenses suffered or incurred by officers or directors as a result of their service, and/or by any subsidiaries; and
 - non-monetary transactions and transactions for no consideration.
13. We have disclosed to you the identity of the entity's related parties and the related party relationships and transactions of which we are aware.
14. We are aware of the environmental laws and regulations that impact the City and we are in compliance. There are no known environmental liabilities or contingencies that have not been accrued for or disclosed in the financial statements.

Fraud and Error

15. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud, and have determined such risk to be low.
16. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
17. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators, or others.
18. The effects of unadjusted misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Existence, Completeness and Valuation of Specific Financial Statement Balances

19. There are no pledges or assignments of assets as security for liabilities except as disclosed in the financial statements.
20. All financial instruments have been appropriately recognized and measured in accordance with Public sector accounting standards. Significant assumptions used in arriving at fair value of financial instruments are reasonable and appropriate in the circumstances.
21. Where the value of any asset has been impaired, an appropriate provision has been made in the financial statements or has otherwise been disclosed to you.
22. The employee future benefit costs, assets and obligation have been determined, accounted for and disclosed in accordance with Canadian public sector accounting standards. The source data and plan provisions provided are complete and accurate. The plans included in the valuation are complete. The determination of the discount rate and the use of specific actuarial assumptions are our best estimate assumptions. We feel that the extrapolations are accurate and have properly reflected the effects of changes and events occurring subsequent to the most recent valuation that had a material effect on the extrapolation.

General Representations

23. The nature of all material uncertainties have been appropriately measured and disclosed in the financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.
24. There were no direct contingencies or provisions (including those associated with guarantees or indemnification provisions), unusual contractual obligations nor any substantial commitments, whether oral or written, other than in the ordinary course of business, which would materially affect the financial statements or financial position of the City, except as disclosed in the financial statements.
25. We have informed you of all outstanding and possible claims, whether or not they have been discussed with legal counsel. Since there are no outstanding or possible claims, no disclosure is required in the financial statements.
26. We confirm that there are no derivatives or off-balance sheet financial instruments held at year end that have not been properly recorded or disclosed in the financial statements.
27. We have disclosed to you all significant customers and/or suppliers of the organization who individually represent a significant volume of business with the organization. We are of the opinion that the volume of business (sales, services, purchases, borrowing and lending) done by the City with any one party is not of sufficient magnitude that discontinuance would have a material negative effect on the ongoing operations of the organization.
28. There have been no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
29. We confirm that operating segments are appropriately identified and disclosed in accordance with Canadian public sector accounting standards.
30. No significant matters, other than those disclosed in the financial statements, have arisen that would require a restatement of the comparative financial statements.



31. We have disclosed to you all information related to current and historical properties owned by the City and confirm that there is no material liability to remediate properties to environmental standards.

Yours truly,

Signature

Position

Signature

Position



APPENDIX D - Management Letter

Direct Line: 604-443-4716
E-mail: bcox@bdo.ca

April 25, 2016

Susanne Thompson, CPA, CGA, Director of Finance
The Corporation of the City of Victoria
1 Centennial Square
Victoria, BC V8W 1P6

Dear Ms. Thompson:

As your external auditors, we are engaged to provide an audit opinion on your year end financial statements. An external audit requires testing of transactions and balances and review of those internal control systems upon which we may place reliance. A positive opinion on the financial statements does not necessarily mean that your internal control systems are all operating effectively. This is because we review only those internal control systems where we feel that failure in those systems could result in a material error on the financial statements. With those systems that we do review, our focus is on the assertions necessary to meet our financial statement audit objectives.

Our review of systems, transactions and balances as well as discussions with staff at various levels gives us a unique insight into your operations. While conducting this work we make note of items that come to our attention where we feel that improvement could be made or alternatives could be considered. We are fortunate in that we work with a great number of clients and observe a wide variety of processes. We see firsthand any procedures that are emerging as best practices.

As matters come to our attention, we make note of these for subsequent follow-up. For minor matters we discuss directly with the staff involved. More important matters are brought forward in this letter (known as a management letter).

It is worth noting that we have management letter comments for virtually all audits of all clients. The existence of points does not mean that there are significant problems with your systems or staff. They are just recommendations to make good systems better.

Current Year Observations

1. Timely Completion and Review of Reconciliations

We noted during audit testing that the reconciliations for permits receivable were not completed on a timely basis and the review of the reconciliation was not formally documented. We observed that the reconciliation for January to March 2015 was performed in February 2016 and the reconciliation for April to December 2015 was completed in March 2016. Neither of these reconciliations had indication of review by a second person.

Preparing reconciliations so long after the fact decreases their effectiveness. Any potential fraud or errors may not be identified and rectified in a timely manner.

Recommendation

We recommend that the City implement procedures to ensure completion and review of reconciliations should be performed at least every quarter. The reconciliations should also have evidence that they have been reviewed another person independent of the process.

Management Comments

While review of balance sheet transactions does occur to support reporting accuracy, City staff agree that completion and review of reconciliations are required on a timely basis. This has been identified as an opportunity for cross-training and a greater variety of resources have been made available to meet monthly or quarterly reconciliation deadlines. Additionally, staff are pursuing enhancement of software utilization to increase functionality and explore reporting tools available to realize efficiencies.

2. Deferral of Building Permits

We noted that almost all building permits were reviewed by staff for the level of completion and deferred based on the assessed level. Due to the size of the list and varying values of the permits, this is a time consuming process.

Recommendation

We recommend that the City increase the threshold level for permit values that require review at year end. A significant number of Items above the current threshold do not have a significant impact to the reported results and do not benefit from review.

Management Comments

The City currently has a minimum threshold in place of \$10,000 construction value, resulting in a year end review of all outstanding permits with a value exceeding \$125.00. Based on feedback from the external auditors, the minimum threshold for year end deferral has been increased to \$50,000 construction value.

3. Conflict of Interest Policy - Go Beyond the Legal Requirement

Conflict interest requirements already exist in legislation. The Financial Disclosure Act requires that members of Council as well as employees appointed by Council (generally senior management) make written disclosure of their corporate holdings, business interests, other organizations which may compensate them, and their interests in lands. These disclosures must be updated yearly. The Community Charter contains an entire Division on Conflict of Interest, however this applies only to Council members and deals mostly with participation in meetings, prohibition against influence and disclosure of gifts and contracts.

These legal requirements are important and set the right tone for consideration of conflict of interest in government. However, best practice would be to go beyond these baseline requirements to enhance openness and transparency at the municipality. Best practice would require that an in-house conflict of interest policy be developed and regularly reviewed.

One of the most difficult areas when dealing with conflicts and with putting into policy is the area of "perceived conflicts". A perceived conflict exists where the actual technicalities of the situation might not yield a conflict, yet the general public, who would not have access to the technical details, would perceive that there may be a conflict situation. A perceived conflict really should be treated on par with an actual conflict unless there can be certainty that the conflict can be effectively managed.

A perceived conflict can be managed by:

- Being open and transparent in regard to the situation.
- Developing plans to manage the conflict. This can be done a variety of ways, but often involves removing the individual from any of the decision making in regard to the transaction or business dealing.
- Publicly explaining how the conflict is to be managed and how it will be assessed whether the management of the conflict is succeeding.

The policy on conflict of interest should include at least the following points:

- Description of who is covered by the policy (which likely would be all council members and all staff)
- Definition of what a conflict of interest is
- Explanation of a perceived conflict, how it would be treated on par with a real conflict unless it can be managed
- Description of how a perceived conflict could be managed
- Requirement for all Council and staff to declare any conflicts or perceived conflicts as early in the process as could reasonably be expected
- Agreement from all Council and staff that they will abide by the conflict of interest rules and the result may be lost business for organizations they are directly or indirectly connected to
- Maintenance of a centralized listing of all conflicts that result from both the required statutory disclosures and as a result of this policy
- Development of a form outlining highlights of the policy for review by suppliers and potential suppliers. Suppliers should sign this form and confirm that they will advise the municipality as soon as they become aware of any potential for conflict.
- Identification of a key senior staff member independent of finance and procurement who can:
 - Address questions that Council and staff may have in regard to the policy
 - Address questions that suppliers may have in regard to the policy
 - Address questions that may come from concerned third parties in regard to conflicts
- Creation of document conferring agreement to abide by the policy that should be signed annually by all Council and staff (this is important both as a reminder and to enhance compliance)
- Establishment of procedures for resolving allegations of conflict of interest - particularly how to deal with any contracts that may already be in process

The City already has processes and procedures that cover many of the above noted matters. However, it would be beneficial for the Municipality to codify the procedures, supplement where necessary, and create a formal written policy. As noted above, explicit signing of compliance of the policy by both Council/staff and suppliers is also key to success in this area.

Management Comments

A new Purchasing Policy was approved by Council on April 7 which includes a Standards of Conduct clause that addresses conflict of interest as it relates to procurement.

A Conflict of Interest Policy applicable to staff is in place. We are in the process of developing a conflict of interest declaration form and process for staff.

4. *Use of Project Management Framework for Large Capital Projects*

Creation and management of infrastructure is one of the most important tasks of any local government. Any decision to create or replace a significant piece of infrastructure has to be described as a major decision. Much work goes on throughout the organization in regards to planning, engineering, finding funding sources and many other details related to getting the project together. Many of the key decisions made throughout the process are documented through staff reports, Council and Committee discussions and other methods. Some of the rationale behind the decisions remains mainly in the memories of the individuals involved.

The use of a formal project management framework for any large capital project is quickly becoming a best practice. Several advantages accrue from formalizing the process:

- Helps guard against “scope creep”. This is one of the most significant benefits as it is common for projects to expand as staff, Council and the community get behind them. Or perhaps, for example, an additional funding source is found that may allow for spending of 50 cent dollars and it seems to be a “no brainer” to expand the project to take advantage of these relatively cheap dollars. But the result may be that the framework may not still hang together if it were to be reanalyzed.
- Helps provide a source for enhancing “corporate memory”. “Corporate memory” is data, information and knowledge gathered over the course of an organization’s existence. It exists in written documentation and electronic databases and also in the memories of senior management and key staff. With post baby-boomer staff expected to have much more varied careers with more employers, corporate memory is expected to be more difficult to maintain. The problem is more acute in local government where timeframes involving infrastructure are much longer than those of business decisions in the non-government world. Formalized project management frameworks help keep record of the decisions made along with the rationale for how they were made.
- Helps to take the politics out of decisions. The formalization of the plans and impartial analysis of the risks and benefits allows staff, Council and taxpayers to focus on the facts.

Use of a formal project management framework does not have to create a great deal of extra work. In fact, the vast majority of the information for the framework will already exist in reports from consultants, staff reports, notes from management meetings, and other existing sources. The framework pulls all this information together and allows for review for consistency and an overall analysis of the risks and benefits of the projects.

The framework should include at least the following items:

- Clear definition of project scope, schedule and budget.
- Analysis of the key risk areas and how plans mitigate those risks.
- Definition of degree of change that would require creation of a new or framework. For example, if budgeted expenditure changes by more than 10% the framework must be completely updated.
- Purpose of the project, why it is needed, how it will benefit current and future stakeholders.
- Rationale behind the use of procurement process (eg. Design/Build, Public/Public partnership, Private/Public partnership, etc.)
- Rationale in regard to choice of key supplier(s) including summaries from results of public procurement processes.
- Rationale in regard to the funding choices used including discussion as to inter-generational equity.
- Enumeration of the project team and the team leader and champion.
- Analysis of alternatives and key reasons why they were felt to be not worthy.
- Key decision points along the way (and documentation of decisions made with their rationale as they are made)
- Determination of key performance measures – how will it be determined if the project is a success?
- Results at conclusion of project including documentation of “lessons learned” that will benefit future projects and decision making.

- Post-completion follow-up plans (to review at later date(s) (perhaps 1,3 and 5 years post-completion) to determine if project is operating at plans and what new lessons may be learned as a result.

As noted, the City presently undertakes most of the above in regard to its major capital projects. However, the underlying information exists in various sources. We recommend that the information be collected into a formal project management framework. It may be helpful to develop a project management framework that contains placeholders for the above-noted elements to facilitate the preparation of future frameworks.

Management Comments

As pointed out by the auditors, the City currently undertakes many of the components outlined, but not in a holistic way. The City has started using business cases for some capital projects to outline options for Council's consideration, and project charters are used as a project management tool that identifies scope, timelines and milestones, budget etc. A lessons learned policy is also being developed.

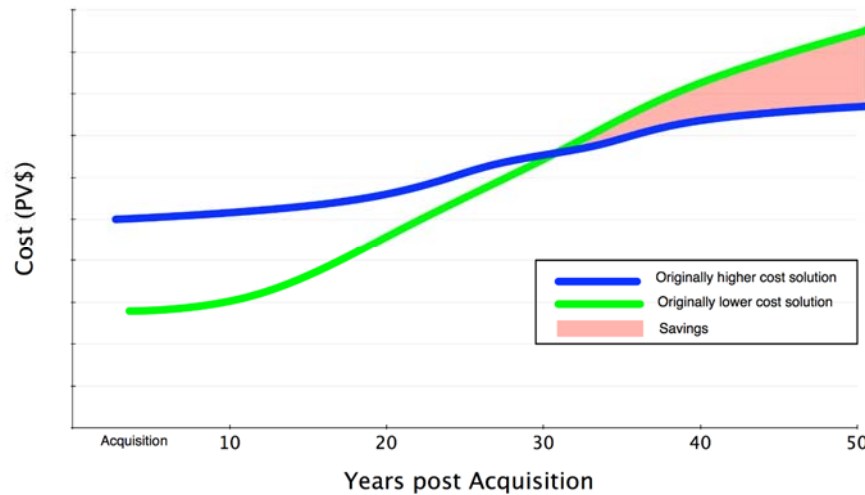
In addition, the City is currently in the process of establishing a more robust Project Management (PM) framework for all City projects, in order to achieve better value for money, improved efficiency, improved quality and higher levels of sustainability (triple bottom line). This framework aims to tie all relevant projects into a single, coherent system, including governance, structure, roles/responsibilities, information, documentation, decisions and actions. This framework is being developed using principles of full lifecycle management and sustainability, which is to suggest that projects decisions will be robustly analyzed against total life-cycle cost, environmental and social benefits/impacts, from project conception and beyond project close-out.

The processes, plans and policies that are included in this framework will be proportional to project complexity, and will include governance and planning tools such as project initiation, business case information, project charter, project plan, risk management plans, procurement and funding plans, performance management plans, progress and communications, lessons-learned and associated records. It is intended that these system templates and processes will start being implemented in projects in 2016, using a philosophy of continual improvement to drive enhancements in the future.

5. Lifecycle Costing

Lifecycle costing is a process to determine the sum of all costs associated with an asset purchase, replacement or major upgrade that includes not just the original cost but also costs of operation, costs of required future maintenance and disposal costs. As individuals we make intuitive assessments of these costs when considering major purchases such as automobiles or homes. Governments also make assessments of these costs when purchasing infrastructure. However, the degree of diligence applied to post-acquisition costs is usually much less than that applied to the acquisition cost itself.

The following graph illustrates the concept of lifecycle costing. In this graph, the lines represent the cumulative cost (on a present value basis) of two different options. The "green" option is initially lower cost, but over time ends up costing considerably more than the "blue" option. The salmon coloured area shows the savings that could have been had by choosing the option that was initially higher cost.



Best practice around lifecycle costing involves formalizing the considerations for all the costs of the asset and building this into the business case. Importantly, sufficient diligence should be put into review and analysis of the post-acquisition costs. In the hypothetical graphed example above, the post-acquisition costs of the originally lower cost solution are more than twice those of the initial acquisition costs (on a discounted, present value basis). With this type of asset there should be as much diligence put into the post-acquisition costs as to the acquisition costs. For other types of assets the post-acquisition costs may be minimal and in those situations lower diligence in regard to review of post-acquisition costs may be warranted.

Applying diligence to review of projected post-acquisition costs can be difficult. Too frequently all that is considered are the supplier's estimates. Given the supplier's motives to land a sale, these estimates have to be challenged. This can be done by researching sources such as:

- Peer municipalities who have used similar asset/infrastructure of this supplier
- Peer municipalities who have used asset/infrastructure of another supplier but of similar design
- Consulting engineers, architects, quantity surveyors and other professionals
- Trade journals and industry publications

In cases where the technology is new, it may be difficult to verify estimates. In such circumstances it may be worthwhile to insist on longer warranty periods by supplier and/or guarantees as to the maximum future operating or maintenance cost level - even if such guarantees come at a cost.

The City currently undertakes much of the above in consideration of lifecycle costs. However, this information is not brought together formally and is not explicitly discussed as part of the business case for major infrastructure projects. We recommend that this process be formalized by ensuring that all key considerations are documented, estimates tested and verified through third party research. The development of a template for lifecycle costing review would be beneficial as it would help ensure that all appropriate considerations were made as part of the lifecycle costing review.

Management Comments

Currently, lifecycle costing is done as part of master planning which informs the projects that are included in the capital plan. Lifecycle costing is also part of the planned project management framework as outlined above.

6. Employee Code of Conduct in Regard to Fraud and Illegal Acts

Establishing the right “tone at the top” is an important part of organizational culture. Innovation requires a high degree of trust and employee empowerment. It may seem counter-intuitive, but an employee code of conduct in regard to fraud and illegal acts can be beneficial in this area. It says “we trust you to do the right thing” but also to “remember what our corporate values are”.

We recommend that you consider implementing an ethical behavior/code of conduct agreement. Trust and collaboration are essential prerequisites for innovation. Developing and committing to agreements that set out appropriate behaviours can enhance public confidence in the integrity of public employees. Such agreements can address values, duty of care, legal compliance, ethical conduct, confidentiality, and other standards that build trust in the work performed by local governments and the services they deliver. It reminds employees not to “look the other way” if they see someone else in the organization abusing the trust placed in them.

As we noted above in regard to conflict of interest policy, to be most valuable the code of conduct should be signed annually. The annual review of the document refreshes the employee’s memory of the specifics of the policies as well as the overriding fact that the policies continue to exist. The act of signing the agreement creates a human behavior that makes it much more likely to be followed.

Management Comments

The City has a “Respectful Workplace” policy in place that addresses conduct in the workplace, however it does not include all the components outlined by the auditors. In addition, a “Serious Complaints” policy which outlines a process for employees to identify inappropriate activities is also in place.

Currently, a Code of Conduct Policy applicable to staff is in the process of being developed and is in draft form.

This communication is prepared solely for the information of management and those charged with governance and is not intended for any other purposes. We accept no responsibility to a third party who uses this communication.

We would like to express our appreciation for the co-operation and assistance which we received from you, Laurel Westinghouse, Jill McQuade, Layla Monk and the rest of the finance department during the course of the audit.

We shall be pleased to discuss with you further any matters mentioned in this letter at your convenience.

Yours truly,



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

BC/

cc: Council