KPMG

City of Richmond

Audit Planning Report for the year ending December 31, 2019

KPMG LLP

Dated October 25, 2019 for presentation at the Finance Committee meeting on November 4, 2019

kpmg.ca/audit

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

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

Executive summary

We are pleased to provide for your review the following information relating to the planned scope and timing for the audit of the financial statements of the City of Richmond (the "City") for the year ending December 31, 2019.

Changes in operations

Based on discussions with management, we have noted below an item related to change in operations that has been taken into consideration in planning the audit:

- On November 6, 2019, the City will implement a system conversion of its recreation management system which includes program registration, facilities booking, memberships, and point of sales, from the current CLASS software to PerfectMind, a cloud-based system. As PerfectMind will serve as the basis for the recording and recognition of several service revenues streams going forward, we have taken this into consideration the impact of the system conversion on the City's financial reporting and the financial statements as a whole.

Areas of audit focus

Our audit of the City is risk-focused. As part of our audit process, we have had discussions with management about any changes in the organization or other items that should be brought to our attention and considered the impact of those items on our audit. In planning our audit, we have taken into account key areas of audit focus for financial reporting. These include:

- Tangible capital assets;
- Deferred revenue and development cost charges;
- Valuation of post-employment benefits; and
- Recreation management system conversion (CLASS to PerfectMind).

See pages 4 to 5 for further details.

Executive summary (continued)

Changes in accounting standards

The following new accounting standard has been approved by the Public Sector Accounting Board ("PSAB") and is effective for the City's 2019 fiscal year:

- PS 3430 Restructuring Transactions

We will work with Management to assess whether the adoption of the new accounting standard will have any impact on the City's financial statements.

Audit 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. Materiality has been determined based on total expenses of the prior year. We have determined materiality to be $8,300,000 for the year ending December 31, 2019.

See page 7 for further details.

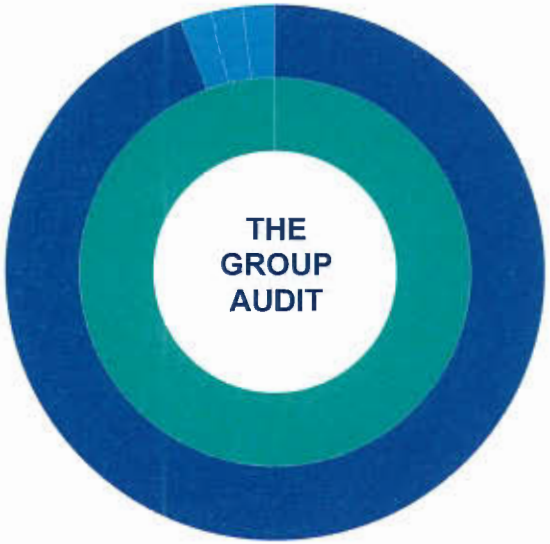
Independence

We are independent of the City and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow the City's approved protocols as determined by those changed with governance.

Current developments

See pages 10 to 13 for the current developments update.

Group audit scope



Type of work performed	# of components	Legend
Individually financially significant - City of Richmond	1	
Other Components - Richmond Public Library - Richmond Olympic Oval Corporation - Lulu Island Energy Company	3	

Procedures performed by	Legend
Group team – KPMG Vancouver	

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Areas of audit focus

Area of focus	Why are we focusing here?	Our audit approach
Tangible Capital Assets	Tangible capital assets represent a significant portion of assets of the City.	- Detailed testing of asset additions, including inspection of supporting documentation to determine if additions are capital in nature and to test accuracy of amounts recorded. - Detailed testing of dispositions including inspection of supporting documentation and assessing if the gain or loss on disposition has been recorded appropriately. - Review the reasonableness of estimated useful lives and amortization recognized. - Review agreements for contractual commitments and related disclosure requirements.
Deferred Revenue and Development Cost Charges	There is a significant amount of development and capital activity ongoing in the City. The City receives government grants and development cost charges for certain projects. As these amounts are for specified purposes and could contain stipulations, there is a need to determine whether the amounts should be deferred or recognized as revenue upfront.	- Reconcile permits to new development cost charges during the year and inspect appropriate bylaws noting the appropriation for its specified purpose. - Inspect specific contracts to determine whether there are stipulations or restrictions in place. - Assess whether the appropriate stipulations have been met by inspecting and recalculating expenses incurred for certain projects. - Assess whether the revenue recognition criteria have been met before revenue is recorded.

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Areas of audit focus (continued)

Area of focus	Why are we focusing here?	Our audit approach
Valuation of Post – Employment Benefits	The City provides post-employment benefits to its employees, creating a liability. Due to the variety of factors involved in calculating the estimate, a high degree of estimation uncertainty exists.	- Obtain the reports prepared by Mercer (Canada) Limited and tie amounts from those reports into the financial statements. - Review the significant assumptions used in the actuarial report and test the data provided by the City to Mercer for completeness and accuracy. - Perform an analytical review over these amounts. - Review note disclosure in the financial statements to ensure it is complete and accurate.
Recreation management system conversion (CLASS to PerfectMind)	The City will implement the PerfectMind recreation management software during 2019.	- Gain an understanding of the significant financial reporting processes and controls impacted by the conversion to new system. - Assess the accounting for costs incurred in relation to the system implementation and ensure they are appropriately accounted for. - Perform testing over the data transferred from CLASS to PerfectMind to ensure the information is accurately imported into the new system at the time of implementation. - Perform substantive audit procedures over the revenue recorded from the new system.

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Audit risk

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Professional requirements	Why is it significant?
Fraud risk from management override of controls.	This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

Our audit approach

As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

Annual inquiries

Professional auditing standards require that we annually inquire concerning the Finance Committee's oversight of management's process for identifying and responding to the risks of fraud with the City. Accordingly, we ask whether you:

- Are aware of, or have identified any instances of, actual, suspected, possible or alleged non-compliance of laws and regulations or fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets? If so, have these instances been appropriately addressed to your satisfaction?
- Are aware of any significant fraud risks facing the City?
- Believe that the Finance Committee exercises effective oversight of management's process for identifying and responding to the risk of fraud in the City and these internal controls that management has established to mitigate these fraud risks?
- Are aware of the City entering into any significant unusual transactions?

Please provide your response to the above questions to CJ James, Engagement Partner either by phone at 604-527-3635 or email at cjjames@kpmg.ca.

Materiality

Materiality determination	Comments	Amount
Benchmark	Relevant metrics for this type of organization includes total assets, total expenses and total assets. Based on the prior year's total expenses.	$414,456,000
Materiality	Determined 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.	$8,300,000
% of Benchmark	The acceptable range for a gross benchmark is between 0.5% and 3%.	2%
Performance Materiality	75% of materiality. Threshold used primarily to determine the nature, timing and extent of audit procedures.	$6,225,000
Audit Misstatement Posting Threshold (AMPT)	5% of materiality. Threshold used to accumulate misstatements identified during the audit.	$415,000

Materiality is used to scope the audit, identify risks of material misstatements and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

Professional standards require us to re-assess materiality at the completion of our audit based on period-end results or new information in order to confirm whether the amount determined for planning purposes remains appropriate.

We will report to the Finance Committee:

- Corrected audit misstatements
- Uncorrected audit misstatements

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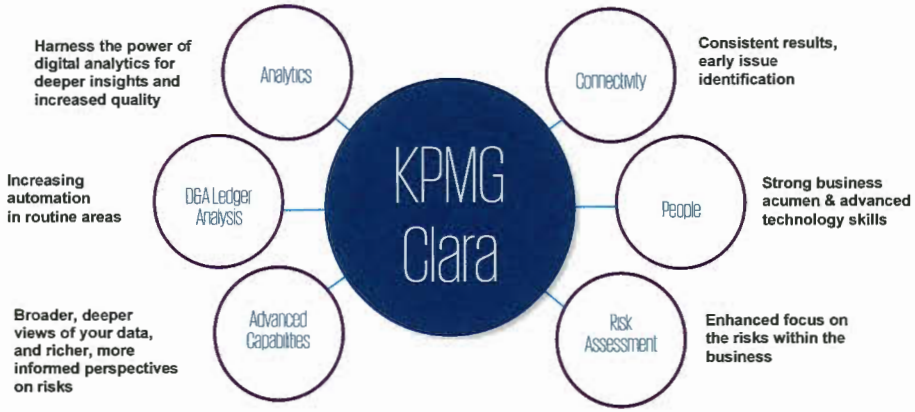
The audit of today, tomorrow & the future

As part of KPMG's technology leadership, our audit practice has developed technologies and alliances to continuously enhance our capabilities and deliver an exceptional audit experience.

Technology empowers us with the ability to perform deep analysis over your financial information, focusing our effort and interactions on the areas of greatest risk and minimizing disruption to your business.



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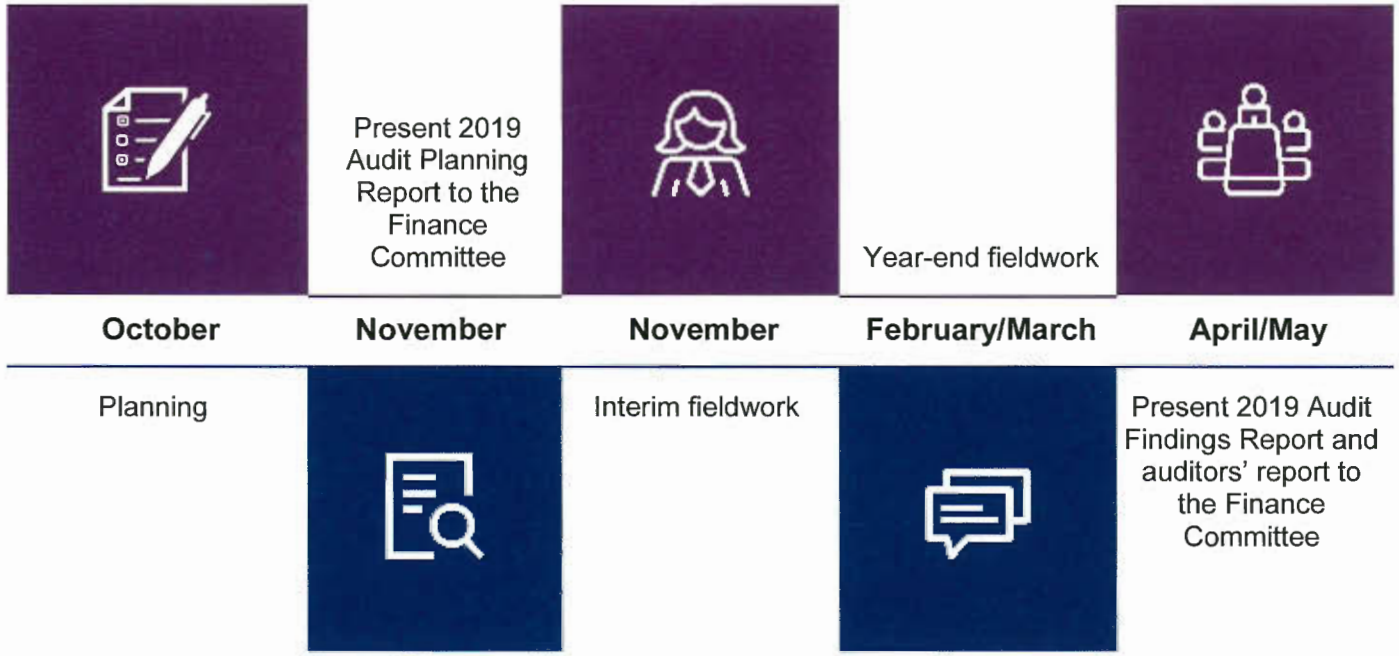
Technology we use today

Tool	Benefit to audit
Journal Entry Analysis	Our journal entry tool assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.
Data Extraction & Analytics Tools	Our data extraction tools assist with risk assessment procedures and perform automated audit procedures in key cycles using data extracted directly from your ERP system.

Key deliverables and milestones



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Current developments

Public Sector Accounting Standards

Standard	Summary and implications
Asset Retirement Obligations	– A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2021. – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector entity will have to: • consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.
Revenue	– A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2022. – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that 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. – The standard notes that unilateral revenues arise when no performance obligations are present, and 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.

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Current developments (continued)

Standard	Summary and implications
Financial Instruments and Foreign Currency Translation	– New accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* have been approved by PSAB and are effective for years commencing on or after April 1, 2021. – 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 public sector entity'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 Remeasurement 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. – Based on stakeholder feedback received, PSAB is considering certain scope amendments to PS 3450 *Financial Instruments*. The proposed amendments include the accounting treatment of bond repurchases, scope exclusions for certain activities by the federal government, and improvements to the transitional provisions. An initial exposure draft was issued for comment by PSAB in May 2019. PSAB is currently deliberating on the comments received and may approve a revised exposure draft for comment in December 2019.
Employee Future Benefit Obligations	– PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. Given the complexity of issues involved and potential implications of any changes that may arise from this review, the project will be undertaken in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. – Three Invitations to Comment were issued and have closed. The first Invitation to Comment sought guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets. The second Invitation to Comment sought guidance on the present value measurement of accrued benefit obligations. A third Invitation to Comment sought guidance on non-traditional pension plans. PSAB is currently deliberating on the comments received from the three Invitations to Comment. – The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.

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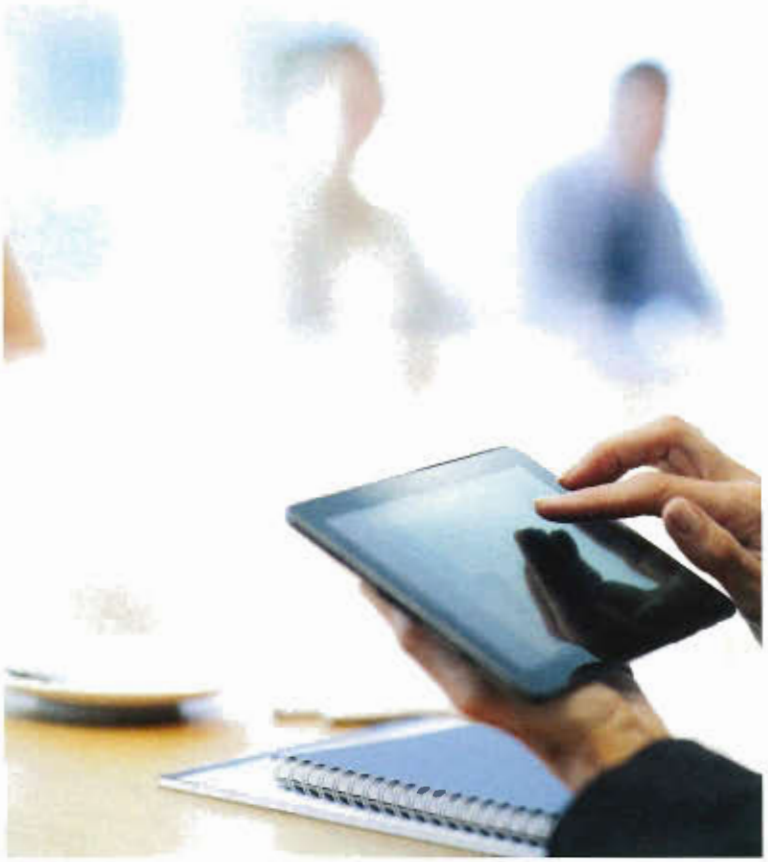
Current developments (continued)

Standard	Summary and implications
Public Private Partnerships ("P3")	– PSAB has proposed new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. An exposure draft has been approved by PSAB and will be issued in November 2019, with comments due by February 29, 2020. – The exposure draft proposes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends. – The exposure draft proposes that the public sector entity recognize a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. – The infrastructure would be valued at cost, with a liability of the same amount if one exists. Cost would be measured by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.
Concepts Underlying Financial Performance	– PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – A Statement of Concepts ("SOC") and Statement of Principles ("SOP") were issued for comment in May 2018 and has closed. PSAB is in the process of developing two exposure drafts for comment. – The SOC proposes a revised, ten chapter conceptual framework intended to replace PS 1000 *Financial Statement Concepts* and PS 1100 *Financial Statement Objectives*. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. – The SOP includes principles intended to replace PS 1201 *Financial Statement Presentation*. The SOP proposes: • Removal of the net debt indicator, except for on the statement of net debt where it would be calculated exclusive of financial assets and liabilities that are externally restricted and/or not available to settle the liabilities or financial assets. • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). • Restructuring the statement of financial position to present non-financial assets before liabilities. • Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities). • A new provision whereby an entity can use an amended budget in certain circumstances. – Inclusion of disclosures related to risks and uncertainties that could affect the entity's financial position.

Current developments (continued)

Standard	Summary and implications
International Strategy	– PSAB is in the process of reviewing its current approach towards International Public Sector Accounting Standards. This project may result in changes to the role PSAB plays in setting standards in Canada. – Consultation papers were released for comment in May 2018 and March 2019, and have closed. The consultation papers described the decision-making criteria PSAB expects to consider in evaluating the international strategy that best serves the public sector. It also introduced four proposed international strategies. – PSAB is expected to make a final decision about its international strategy at its March 2020 meeting.
Purchased Intangibles	– In October 2019, PSAB approved a proposal to allow public sector entities to recognize intangibles purchased through an exchange transaction. The proposal does not include guidance on how to account for intangibles. Instead, the definition of an asset, the general recognition criteria and the GAAP hierarchy is expected to provide guidance on how to account for intangibles. The accounting for intangibles may be addressed through future PSAB projects.

Appendices



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Appendix 1: Audit quality and risk management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards. Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems. Visit our Audit Quality Resources page for more information including access to our most recent Audit Quality and Transparency Report.

We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.

We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality. We do not offer services that would impair our independence.

All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.

The processes we employ to help retain and develop people include:

- Assignment based on skills and experience
- Rotation of partners
- Performance evaluation
- Development and training
- Appropriate supervision and coaching

We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.

Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Other controls include:

- Before the firm issues its audit report, Engagement Quality Control Reviewer reviews the appropriateness of key elements client audits
- Technical department and specialist resources provide real-time support to audit teams in the field

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Appendix 2: KPMG's audit approach and methodology

In future years, we will expand our use of technology in our audit through our new smart audit platform, KPMG Clara.

Deep industry insights

Bringing intelligence and clarity to complex issues, regulations and standards

Issue identification

Continuous updates on audit progress, risks and findings before issues become events

Analysis of complete populations

Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes

Data-driven risk assessment

Automated identification of transactions with unexpected or unusual account combinations – helping focus on higher risk transactions and outliers

Reporting

Interactive reporting of unusual patterns and trends with the ability to drill down to individual transactions

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Appendix 3: Required communications

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

Engagement letter

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter dated October 26, 2017.

Management representation letter

We will obtain from management certain representations at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Finance Committee.

Audit planning report

Represented by this report.

Audit findings report

At the completion of our audit, we will provide our audit findings to the Finance Committee.

Independence

At the completion of our audit, we will re-confirm our independence to the Finance Committee.

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Appendix 4: Lean in Audit™

An innovative approach leading to enhanced value and quality

Our innovative audit approach, Lean in Audit™, further improves audit value and productivity to help deliver real insight to you. Lean in Audit™ is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide real insight on your processes and actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both our audit team and management. For example, the audit team may identify control gaps and potential process improvement areas, while management has the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.

How it works

Lean in Audit™ employs four key Lean techniques:

1. Lean training

Provide basic Lean training and equip our audit teams with a new Lean mindset to improve quality, value and productivity.

2. Process mapping workshop

Perform an interactive workshop with your team to map selected financial process providing end-to-end transparency and understanding of the process.

3. Insight reporting

Quick and pragmatic insight report including PACE matrix with prioritized opportunities to realize benefit.

4. Kaizen event

Perform an interactive workshop to find the root cause of the problem and empower your team to find a solution.

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