KPMG

City of Richmond

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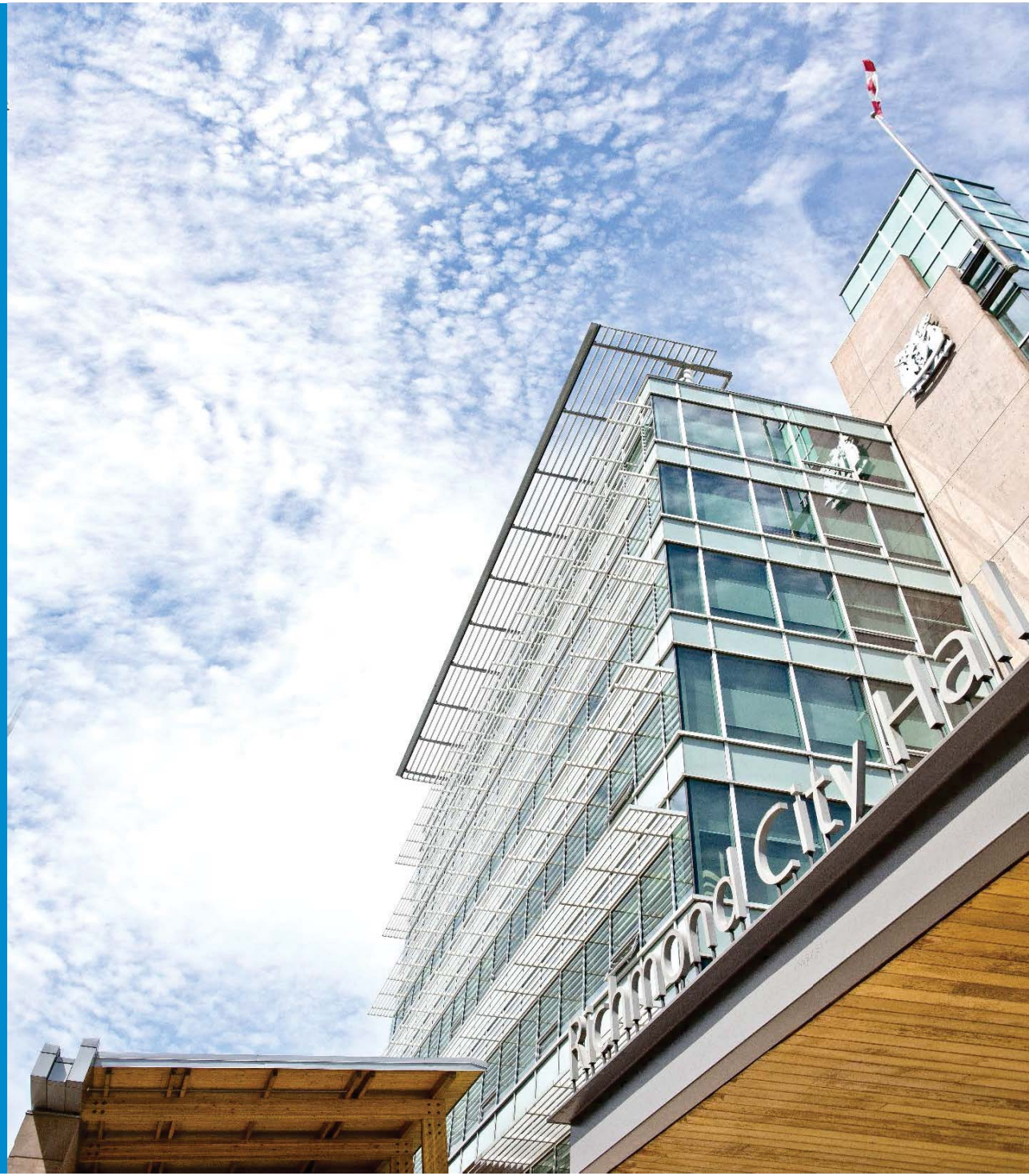
Audit Planning Report for the year ended December 31, 2018

KPMG LLP

December 3, 2018

kpmg.ca/audit



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

Considerations in developing our Audit Plan

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We are pleased to provide for your review the following information relating to the planned scope and timing for the audit of the consolidated financial statements of the City of Richmond (the "City") for the year ended December 31, 2018.

Changes in operations

Based on discussions with management, there are no significant changes in the operations that will impact the audit of the City of Richmond for the current year.

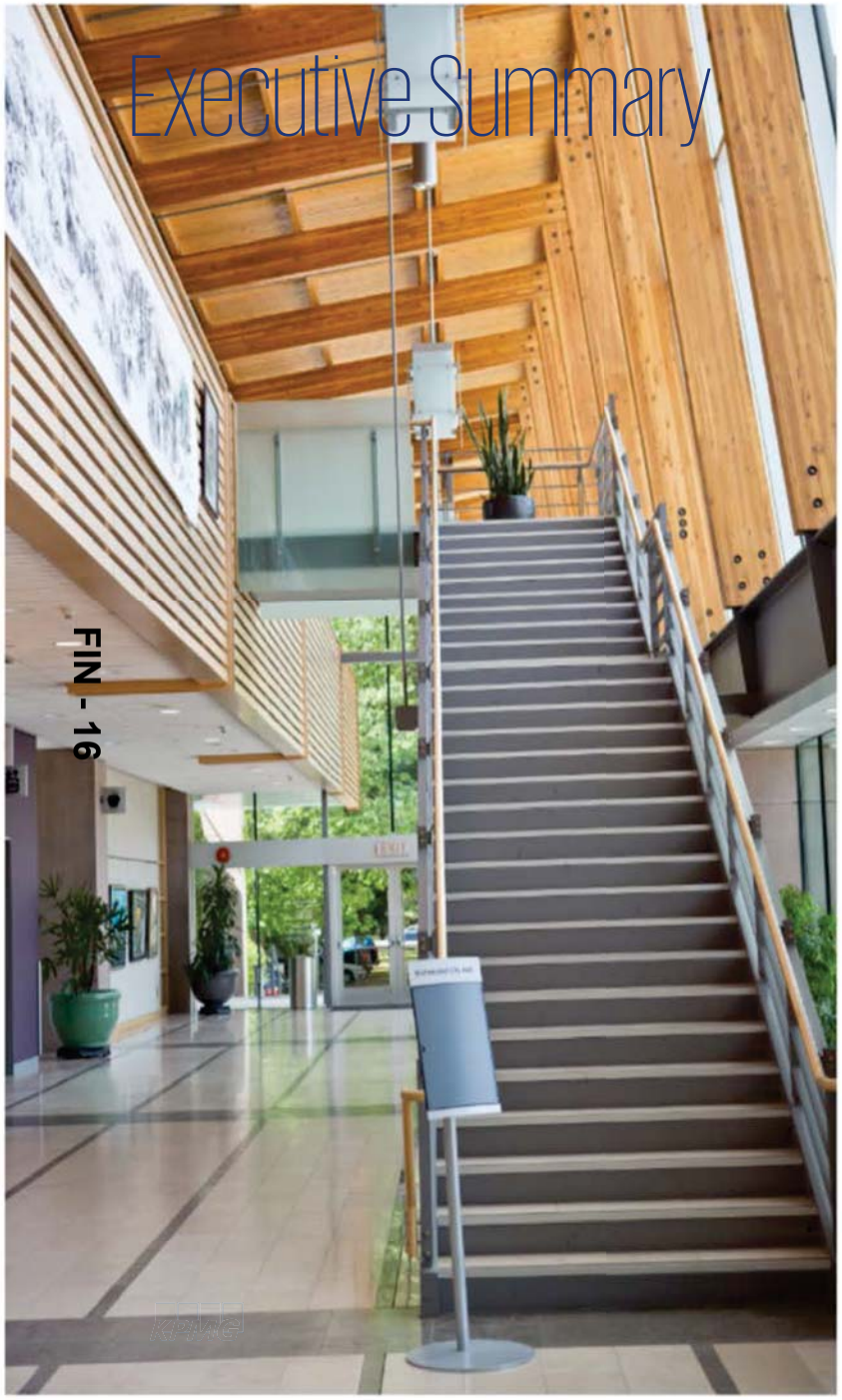
Changes in accounting standards

The following new accounting standards have been approved by the Public Sector Accounting Board ("PSAB") and are effective for the City's 2018 fiscal year:

- Related party disclosures
- Inter-entity transactions
- Assets
- Contingent assets
- Contractual rights

Management has commenced work to adopt the new accounting standards.

Executive Summary



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Areas of audit focus

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- deferred revenue and development cost charges
- valuation of post-employment benefits

See pages 7-8

KPMG Team

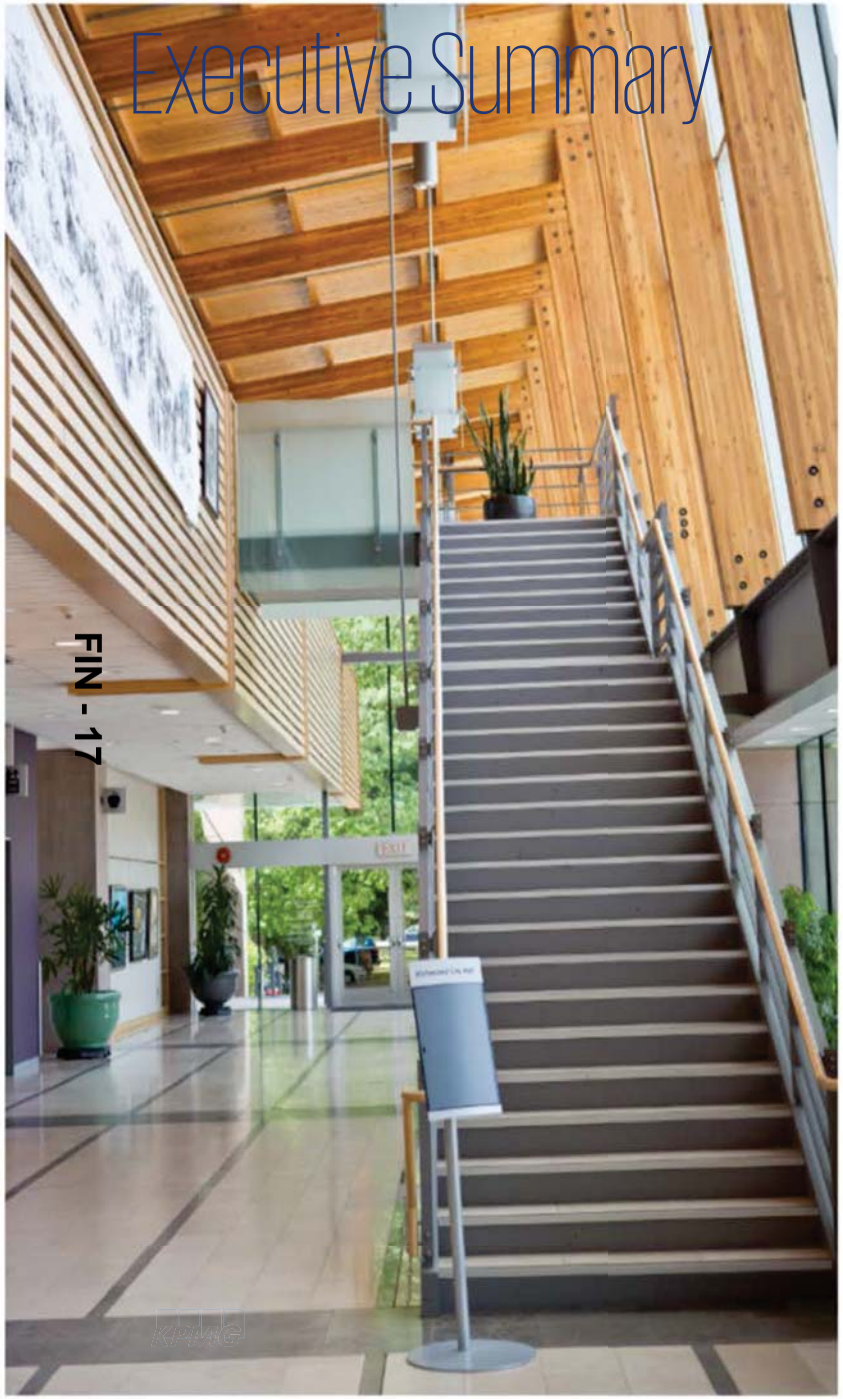
The KPMG will be led by CJ James. She will be supported by Aanu Adeleye. Subject matter experts will be involved, if deemed necessary, to ensure our approach is appropriate and robust.

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. Materiality has been determined as $8,300,000.

See page 10

Executive Summary



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Independence

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

Effective communication

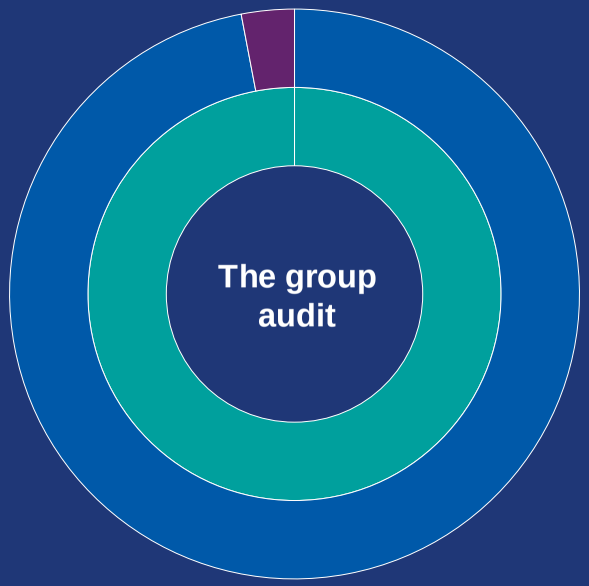
We are committed to transparent and thorough reporting of issues to management and the Mayor and Council. This is achieved through formal and informal meetings throughout the year.

See Appendix 4.

Current developments

Please refer to pages 24 – 27 for upcoming accounting changes relevant to the City.

Group Audit Scope



Components	# of Components	Legend
Individually Significant Components - 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	

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Areas of audit focus

Area of focus	Why are we focusing here?
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.

Our audit approach

- Reconcile permits to new development cost charges during the year and inspect appropriate bylaws showing appropriation for the specified purpose of the amounts.
- 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.

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Areas of audit focus

Area of focus	Why are we focusing here?
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.

Our audit approach

- 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

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Audit risks

Professional requirements

Fraud risk from management override of controls

Why is it significant?

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.

Materiality

Materiality Benchmark

Prior year (2017) total expenses

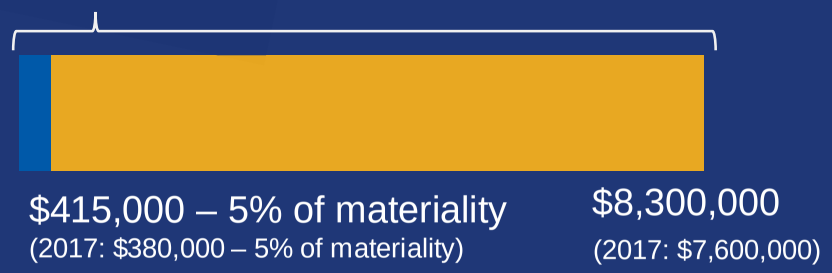
$413.3 million

(2017: $379.4 million – 2016 total expenses)

Materiality

$8,300,000

2% of 2017 total expenses
(2017: $7,600,000 - 2% of 2016 total expense)



- Misstatements reported to the Finance Committee
- Materiality for the financial statements as a whole

Materiality represents 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:

- Corrected audit misstatements
- Uncorrected audit misstatements

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Key deliverables and milestones

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November	November	February/March	May
Planning year-end 2018 audit and provide Audit Planning Report	Interim Fieldwork	Year-end fieldwork	Present 2018 Audit Findings Report and auditors' report

Annual inquiries

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

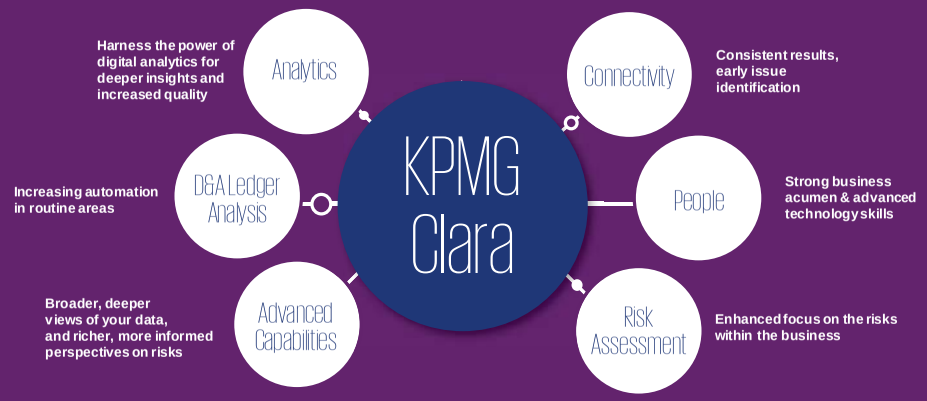
- Are aware of, or have identified any instances of, actual, suspected, possible or alleged non-compliance of laws and regulations or fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets? If so, have these instances been appropriately addressed to your satisfaction?
- Are you aware of any significant fraud risks facing the City?
- Believe that the Mayor and Council 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**.

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 deep analysis over your financial information, focusing our effort and interactions on the areas of greatest risk and minimizing disruption to your business.



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.

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The 2018 Auditors' Reports

Background

In response to stakeholders demanding more than a binary pass/fail opinion from the auditors' report, the new and revised auditor reporting standards have introduced significant changes to the traditional auditors' report we provide.

In April 2017, the Auditing and Assurance Standards Board ("AASB") in Canada approved the new and revised auditor reporting standards as Canadian Auditing Standards (CASs).

Highlights of changes to your 2018 auditors' reports

- Re-ordering of the auditors' report including moving opinion to the first section.
- Separate section on "Material Uncertainty Related to Going Concern" if a material uncertainty is identified.
- Separate section on "Other Information" (e.g. annual report).
- Expanded descriptions of management's responsibilities, including those related to assessing the City's ability to continue as a going concern.
- New description of responsibilities of those charged with governance (the Mayor and Council).
- Expanded descriptions of auditors' responsibilities.

Currently, the reporting of Key Audit Matters ("KAMs") in the auditors' report is only applicable when required by law or regulation or when the auditor is engaged to do so.

The 2018 Auditors' Reports (continued)

Expected form of the City's auditors' report on the financial statements

INDEPENDENT AUDITORS' REPORT

To the Mayor and Council of the City of Richmond

Opinion

We have audited the consolidated financial statements of the **City of Richmond** (the "City"), which comprise:

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the City as at December 31, 2018, and its consolidated results of operations, its changes in net consolidated financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***" section of our auditors' report.

We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

The 2018 Auditors' Reports (continued)

Expected form of the City's auditors' report on the financial statements (continued)

Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditors' report thereon, included in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Report as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the City's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the City or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the 's financial reporting process.

The 2018 Auditors' Reports (continued)

Expected form of the City's auditors' report on the financial statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

The 2018 Auditors' Reports (continued)

Expected form of the City's auditors' report on the financial statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the City to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants

Vancouver, Canada

DATE

The 2018 Auditors' Reports (continued)

Expected form of the City's auditors' report for the Home Owners' Grants

INDEPENDENT AUDITORS' REPORT

To the City of Richmond and Ministry of Municipal Affairs and Housing

Opinion

We have audited the financial information in the accompanying Form C2 – Home Owner Grant: Treasurer/Auditor Certificate comprised of total Home Owner Grants of $XXX,XXX, total reimbursement by the Province of British Columbia (the "Province") of $XXX,XXX, , and total balance due from the Province of $XXX,XXX, of the City of Richmond (the "Entity") for the year ended December 31, 2018, and notes, comprising a summary of significant accounting policies (hereinafter referred to as the "Certificate").

In our opinion, the financial information in the accompanying Form C2 – Home Owner Grant: Treasurer/Auditor Certificate of the Entity for the year ended December 31, 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of Section 12(1) of the Home Owner Grant Act.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Certificate***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the Certificate in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

The 2018 Auditors' Reports (continued)

Expected form of the City's auditors' report for the Home Owners' Grants (continued)

Emphasis of Matter – Financial Reporting Framework

We draw attention to Note 1 to the Certificate, which describes the applicable financial reporting framework.

The Certificate is prepared to assist the Entity to meet the requirements of Section 12(1) of the Home Owner Grant Act.

As a result, the Certificate may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

Other Matter – Restriction on Use

Our report is intended solely for the Entity and the Ministry of Municipal Affairs and Housing and should not be used by other parties.

Responsibilities of Management and Those Charged with Governance for the Certificate

Management is responsible for the preparation of the Certificate in accordance with the financial reporting provisions of Section 12(1) of the Home Owner Grant Act, and for such internal control as management determines is necessary to enable the preparation of a Certificate that is free from material misstatement, whether due to fraud or error.

In preparing the Certificate, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charges with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Certificate

Our objectives are to obtain reasonable assurance about whether the Certificate as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

The 2018 Auditors' Reports (continued)

Expected form of the City's auditors' report for the Home Owners' Grants (continued)

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Certificate.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the Certificate, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the Certificate or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants
Vancouver, Canada
DATE

KPMG

The 2018 Auditors' Reports (continued)

Expected form of the City's report on compliance with the School Act

INDEPENDENT PRACTITIONER'S REASONABLE ASSURANCE REPORT ON COMPLIANCE

To the Ministry of Municipal Affairs and Housing

We have undertaken a reasonable assurance engagement of the accompanying statement of the City of Richmond's compliance during the period of January 1, 2018 to December 31, 2018, with subsection 2 and 3 of section 124 of Part 8 of the School Act ("the specified requirements").

Management's Responsibility

Management is responsible for measuring and evaluating the City of Richmond's compliance with the specified requirements and for preparing the City of Richmond's statement of compliance. Management is also responsible for such internal control as management determines is necessary to enable the City of Richmond's compliance with the specified requirements.

Our Responsibility

Our responsibility is to express a reasonable assurance opinion on management's statement based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with Canadian Standard on Assurance Engagements 3530, *Attestation Engagements to Report on Compliance*. This standard requires that we plan and perform this engagement to obtain reasonable assurance about whether management's statement is fairly stated, in all material respects.

Reasonable assurance is a high level of assurance, but is not a guarantee that an engagement conducted in accordance with this standard will always detect a material instance of non-compliance with specified requirements when it exists. Instances of non-compliance can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users of our report. A reasonable assurance compliance reporting engagement involves performing procedures to obtain evidence about management's statement of the entity's compliance with specified requirements. The nature, timing and extent of procedures selected depends on our professional judgment, including an assessment of the risks of material misstatement of management's statement, whether due to fraud or error, and involves obtaining evidence about management's statement.

The 2018 Auditors' Reports (continued)

Expected form of the City's report on compliance with the School Act (continued)

We believe the evidence we obtained is sufficient and appropriate to provide a basis for our opinion. Information relevant the City of Richmond's compliance with the specified requirements is set out in management's statement of compliance.

Our Independence and Quality Control

We have complied with the relevant rules of professional conduct/code of ethics applicable to the practice of public accounting and related to assurance engagements, issued by various professional accounting bodies, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Canadian Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Opinion

In our opinion, management's statement that the City of Richmond complied with the specified requirements established in subsection 2 and 3 of section 124 of Part 8 of the School Act during the period January 1, 2018 to December 31, 2018, is fairly stated, in all material respects.

We do not provide a legal opinion on the City of Richmond's compliance with the specified requirements.

Purpose of Statement

Management's statement of compliance has been prepared to report to the Ministry of Municipal Affairs and Housing on the City of Richmond's compliance with the specified requirements. As a result, management's statement of compliance may not be suitable for another purpose.

Chartered Professional Accountants
Vancouver, Canada
DATE

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 would 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 would 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 would 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 would 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.

Current developments (continued)

Public Sector Accounting Standards (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 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 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.
Employee Future Benefit Obligations	– The Public Sector Accounting Board ("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. – Two 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 seeks guidance on non-traditional pension plans. The deadline for responses to the third Invitation to Comment is February 1, 2019. – The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.

Current developments (continued)

Public Sector Accounting Standards (continued)

Standard	Summary and implications
Public Private Partnerships ("P3")	– A taskforce was established in 2016 as a result of increasing use of public private partnerships for the delivery of services and provision of assets. – A Statement of Principles ("SOP") was issued in August 2017 which proposes new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership. An Exposure Draft of the new standard is expected to be issued in December 2018. – The SOP 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 SOP proposes 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.
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. – A consultation paper was released for comment in May 2018 and has closed. The consultation paper 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 that PSAB considers to be viable.

Current developments (continued)

Public Sector Accounting Standards (continued)

Standard	Summary and implications
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. – 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.

Appendices

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Appendix 1: Audit quality and risk management

Appendix 2: KPMG's audit approach and methodology

Appendix 3: Lean in Audit™

Appendix 4: Required Communications

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 audit quality report, *Audit quality: Our hands-on process*.

Other controls include:

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

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

We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.

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; and Appropriate supervision and coaching.

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

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

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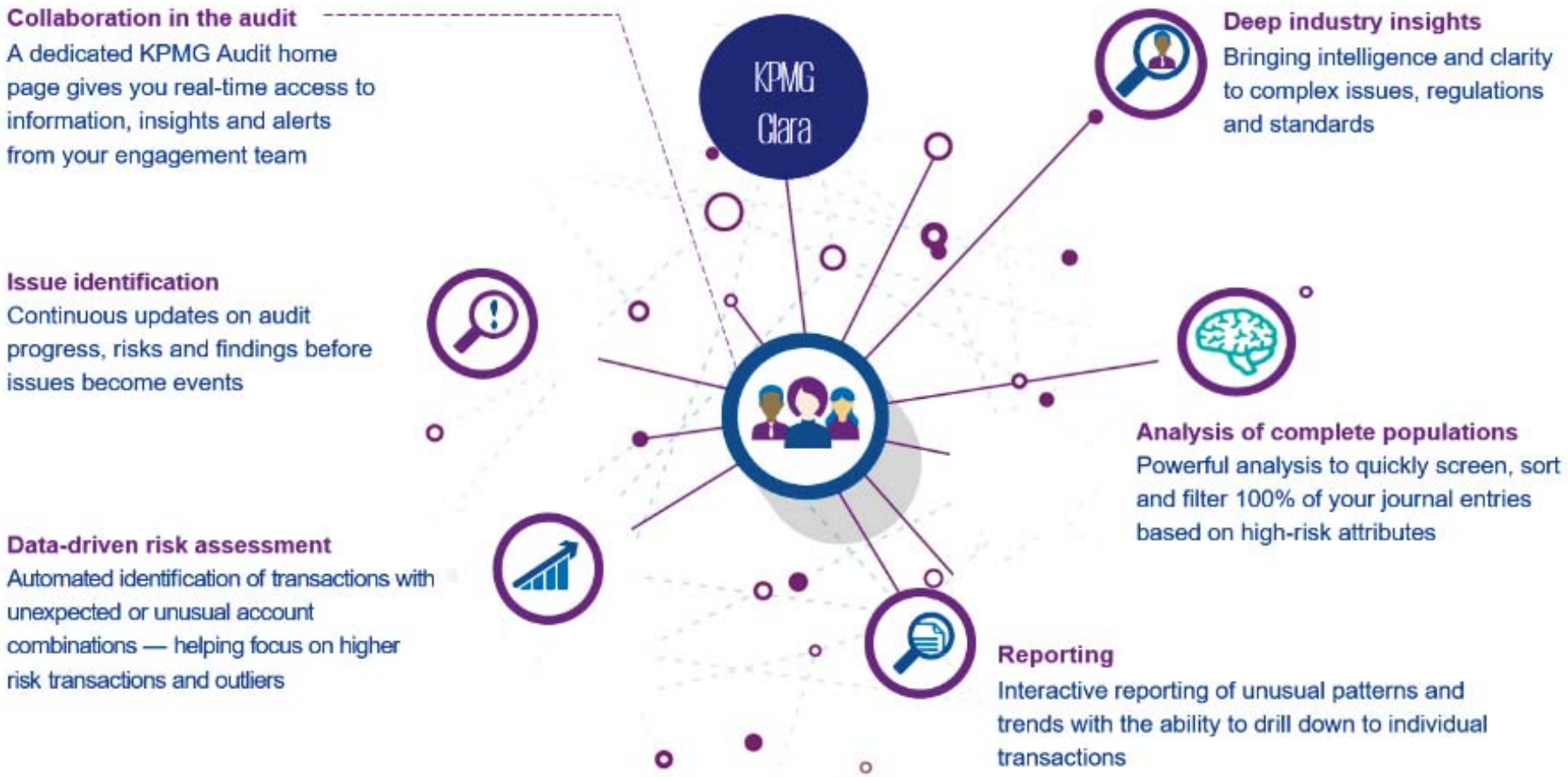
Appendix 2: KPMG's audit approach and methodology

This year we will expand our use of technology in our audit through our new smart audit platform, KPMG Clara.



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Appendix 3: 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 a more focused, high quality audit that also identifies actionable quality and productivity improvement opportunities.

Any insights gathered through the course of the audit will be available to both engagement teams and yourselves. For example, we may identify control gaps and potential process improvement areas, while companies have 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 three key Lean techniques:

1. Lean training

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

2. Interactive workshops

Perform interactive workshops to conduct walkthroughs of selected financial processes providing end to end transparency and understanding of process and control quality and effectiveness.

3. Insight reporting

Quick and pragmatic insight report including your team's immediate quick win actions and prioritized opportunities to realize benefit.

Appendix 4: 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 provided to management.

Management representation letter

We will obtain from management certain representations at the completion of the annual audit. In accordance with professional standards, a copy of the representation letter will be provided to the Mayor and Council.

Audit planning report

As attached.

Audit findings report

At the completion of our audit, we will provide a report to the Mayor and Council.

Independence

At the completion of our audit, we will confirm our independence to the Mayor and Council.

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