

City of Richmond

Audit Planning Report for the year ended
December 31, 2021

KPMG LLP

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Our refreshed Values

What we believe



We do what is right.



We never stop learning and improving.



We think and act boldly.



We respect each other and draw strength from our differences.



We do what matters.

Executive summary

Areas of focus for financial reporting

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

- Tangible capital assets;
- Deferred revenue and development cost charges; and
- Valuation of post-employment benefits.

See page 5.

Effective communication

We are committed to transparent and thorough reporting of issues to management and the City’s Finance Committee (the “Committee”). This is achieved through formal and informal meetings and communications throughout the year. If you have any comments you would like to bring to our attention, please contact C.J. James, Engagement Partner.

See Appendix 1.

Materiality

Materiality has been determined based on current year forecasted total expenses. We have determined materiality to be \$8,500,000 (2020 - \$8,300,000).

See page 3.

Quality control and independence

We are independent of the City and have a robust and consistent system of quality control. We provide complete transparency on all services and follow the City’s approved protocols.

See page 7.

New accounting and auditing standards

There are no new accounting and auditing standards effective for the City’s 2021 fiscal year.

Current developments

Please refer to Appendix 2 for the current developments updates.

This report to the Committee is intended solely for the information and use of management, the Committee and Council and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report to the Committee has been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Materiality

Materiality is used to identify risks of material misstatements, develop an appropriate audit response to such risks, 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.

| Materiality determination | Comments | Amount |
|---|--|---------------|
| Benchmark | <p>Relevant metrics for the type of organization the City includes total revenue, total expenses and total assets. The selected benchmark is the forecasted total expenses for the current year based on the expenses as of September 30, 2021.</p> <p>In the prior year, the 2020 forecasted total expenses of \$415,684,000 was selected as the benchmark.</p> | \$436,624,000 |
| Materiality | <p>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.</p> <p>The corresponding amount for the prior year's audit was \$8,300,000.</p> | \$8,500,000 |
| % of Benchmark | <p>The prescribed range is between 0.5% and 3.0% of the benchmark.</p> <p>The corresponding percentage for the prior year's audit was 2%</p> | 2% |
| Audit misstatement posting threshold | <p>Threshold used to accumulate misstatements identified during the audit.</p> <p>The corresponding amount for the prior year's audit was \$415,000.</p> | \$425,000 |

We will report to the Committee:



Corrected audit misstatements



Uncorrected audit misstatements

Group audit scope

Professional standards require that we obtain an understanding of City's organizational structure, including its components and their environments that is sufficient to identify those components that are financially significant or that contain specific risks that must be addressed during our audit.

The components included in the City's consolidated entity ("the Group") over which we plan to perform our audit procedures are as follows:

| Components | Scope |
|---|--|
| Individually financially significant | |
| - City of Richmond (non-consolidated entity) | Audit |
| Not financially significant components | |
| - Richmond Public Library | Audit, as a standalone audit is being performed due to statutory requirements. |
| - Richmond Olympic Oval Corporation | Audit, as a standalone audit is being performed due to statutory requirements. |
| - Lulu Island Energy Company | Audit, as a standalone audit is being performed due to statutory requirements. |
| Procedures performed by | |
| Group team – KPMG Vancouver | |

Areas of focus for financial reporting

| Areas of focus | Why are we focusing here? | Our audit approach |
|--|---|---|
| Tangible Capital Assets ("TCA") | <p>Tangible capital assets represent a significant portion of assets of the City. The assets owned by the City are complex and may require estimation related to componentization and the fair value of developer contributed assets.</p> | <ul style="list-style-type: none"> - Update our understanding of the process activities and controls over TCA. - Perform 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. - Perform 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 ("DCC") | <p>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.</p> | <ul style="list-style-type: none"> - Reconcile permits to new development cost charges during the year and inspect appropriate bylaws noting the appropriation for its specified purpose. - Update our understanding of the process activities and controls over DCC. - Select a sample of DCC charges, recalculate the total amount, agree each factor in the calculation to supporting documentation (e.g. approved rates) and agree the amount recorded to cash receipts. - Select a sample of DCC expenditures, ensure the expenditures bylaws were approved by Council and agree the amount recorded to supporting documentation. |
| Valuation of Post – Employment Benefits | <p>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.</p> | <ul style="list-style-type: none"> - Obtain the reports prepared by the City’s actuary Mercer (Canada) Limited (“Mercer”) 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. |

Audit risks

Significant risk - professional requirements

Presumption of the risk of fraud resulting from management override of controls.

Why is it significant?

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

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.

Inquiries required by professional standards

Professional standards require that we obtain your view on the risk of fraud. We make similar inquiries to management as part of our planning process:

- Are you aware of, or have you 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 the instances been appropriately addressed and how have they been addressed?
- What are your views about fraud risks in the City?
- How do you exercise effective oversight of management's processes for identifying and responding to the risk of fraud in the City and internal controls that management has established to mitigate these fraud risks?
- Has the City entered into any significant unusual transactions?

Audit quality: How do we deliver audit quality?

Transparency report



Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contribute to its delivery.

‘Perform quality engagements’ sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.

We define **‘audit quality’** as being the outcome when:

- audits are **executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls**; and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics, and integrity**.



Doing the right thing. Always.

Key deliverables and milestones



Appendices

Appendix 1: Required communications

Appendix 2: Current developments and insights



Appendix 1: Required communications

| | |
|---|--|
| Auditors' report | Engagement letter |
| A copy of our draft auditors' report setting out the conclusion of our audit will be provided at the completion of the audit. | 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. |
| Audit findings report | Management representation letter |
| At the completion of the audit, we will provide our findings report to the Committee. | We will obtain from management certain representations at the completion of the audit. In accordance with professional standards, a copy of the representation letter will be provided to the Committee. |
| Independence | Internal control deficiencies |
| At the completion of our audit, we will re-confirm our independence to the Committee. | Control deficiencies identified during the audit will be communicated to management and the Committee. |

Appendix 2: Current developments and insights

Public sector accounting standards

Current Developments, created by the KPMG Public Sector and Not-for-Profit Practice, summarizes regulatory and governance matters impacting public sector entities today, or expected to impact over the next few years. We provide this information to help public sector entities understand upcoming changes and challenges they may face in their industry. Some of these developments may not impact the City directly, but we believe it is important for the Committee to understand what is happening in the sector.

| Standard | Summary and implications |
|-------------------------------------|---|
| Asset Retirement Obligations | <ul style="list-style-type: none">- The new standard is effective for fiscal years beginning on or after April 1, 2022.- 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:<ul style="list-style-type: none">• 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 | <ul style="list-style-type: none">- The new standard is effective for fiscal years beginning on or after April 1, 2023.- 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 transaction, 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. |

Appendix 2: Current developments and insights (continued)

Public sector accounting standards (continued)

| Standard | Summary and implications |
|--|--|
| Purchased Intangibles | <ul style="list-style-type: none">- In October 2019, PSAB approved a proposal to allow public sector entities to recognize intangibles purchased through an exchange transaction. Practitioners are expected to use the definition of an asset, the general recognition criteria and the GAAP hierarchy to account for purchased intangibles.- PSAB has approved Public Sector Guideline 8 which allows recognition of intangibles purchased through an exchange transaction. Narrow-scope amendments were made to Section PS 1000 Financial statement concepts to remove prohibition on recognition of intangibles purchased through exchange transactions and PS 1201 Financial statement presentation to remove the requirement to disclose that purchased intangibles are not recognized.- The effective date is April 1, 2023 with early adoption permitted. Application may be retroactive or prospective. |
| Employee Future Benefit Obligations | <ul style="list-style-type: none">- PSAB has initiated a review of sections PS3250 Retirement Benefits and PS3255 Post-Employment Benefits, Compensated Absences and Termination Benefits. In July 2020, PSAB approved a revised project plan.- PSAB intends to use principles from International Public Sector Accounting Standard 39 Employee Benefits as a starting point to develop the Canadian standard.- Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues.- PSAB released an exposure draft on proposed section PS3251, Employee Benefits in July 2021. Comments to PSAB on the proposed section are due by November 25, 2021. Proposed Section PS 3251 would apply to fiscal years beginning on or after April 1, 2026 and should be applied retroactively. Earlier adoption is permitted. The proposed PS3251 would replace existing Section PS 3250 and Section PS 3255. This proposed section would result in organizations recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations. |

Appendix 2: Current developments and insights (continued)

Public sector accounting standards (continued)

| Standard | Summary and implications |
|--|--|
| Concepts Underlying Financial Performance | <ul style="list-style-type: none">- PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards.- PSAB released four exposure drafts in early 2021 for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. The Board is in the process of considering stakeholder comments received.- PSAB is proposing 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.- In addition, PSAB is proposing:<ul style="list-style-type: none">• Relocation of the net debt indicator to its own statement and the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained.• Separating liabilities into financial liabilities and non-financial liabilities.• Restructuring the statement of financial position to present non-financial assets before liabilities.• Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit to net assets (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), including a new component called “accumulated other”.• 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. |

Appendix 2: Current developments and insights (continued)

Thought leadership

| Thought leadership | Overview | Link |
|--|---|--------------------------------|
| The Future of Local Government | The Future of Local Government report provides a Canadian perspective for how local governments can meet the rapidly changing needs and expectations of their stakeholders – the citizens, partners and leaders across diverse cities and communities they serve. | Link to portal |
| 2020 Audit Quality and Transparency Report | Learn about KPMG's ongoing commitment to continuous audit quality improvement. We are investing in new innovative technologies and building strategic alliances with leading technology companies that will have a transformative impact on the auditing process and profession. How do we seek to make an impact on society through the work that we do? | Link to report |
| KPMG 2021 CEO Outlook | This year we surveyed over 1,300 CEOs globally and the results are pointing to an optimistic outlook amongst Canadian CEOs. Some of the key themes coming out of the survey include expectations for aggressive growth through expansion, investment in both people and technology as well as a focus on delivering on environmental, social and governance (“ESG”) and sustainability commitments. | Link to portal |
| 2021 CEO Pulse Survey | Building on our findings from the CEO Outlook report, this year’s survey remains aligned with these three key themes: growth in a digitally accelerated economy, digital workforces, and leading with purpose. The findings have revealed while there has been a shift in priorities in some areas, other areas have remained unchanged. | Link to portal |
| Implications of coronavirus (COVID-19) | Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat. | Learn more |
| | KPMG Global IFRS Institute - COVID-19 financial reporting resource center | Learn more |
| Put your data to work to gain competitive advantage | There is no "digital economy". The economy is digital and "digits" refer to data. Data is the lifeblood of every organization on this planet and organizations that embrace this notion are well positioned to grow as industries continue to evolve and disrupt at an ever-increasing pace. | Link to report |
| Board Leadership Centre | KPMG in Canada Board Leadership Centre engages with directors, board members and business leaders to discuss timely and relevant boardroom challenges and deliver practical thought leadership on risk and strategy, talent and technology, globalization and regulatory issues, financial reporting and more. | Learn more |

Appendix 2: Current developments and insights (continued)

Thought leadership (continued)

| Resources | Summary | Links |
|---|--|---|
| Accelerate | Our Accelerate series offer insight into the key issues driving the Audit Committee agenda in a number of key areas in risk management: cyber risk; internal control of financial reporting, disclosure and regulation; digital disruption and the future of the finance function; enterprise risk management; and the evolution of environmental, social and governance issues. | Link to series |
| Return to the workplace | <p>As all levels of government begin to take steps toward re-opening the country and restarting our economy, planning for the return to a physical workplace is quickly becoming a top priority for many organizations. With the guidelines for the pandemic continuing to evolve daily, there are many considerations, stages and factors employers need to assess in order to properly develop a robust action plan which can ensure the health and safety of their workforce.</p> <p>We have put together a Return to the Workplace guide to support an organization's planning efforts in preparing to return to physical workplace. Our guide includes a list of considerations, stages and factors that can help establish a robust action plan for your organization to safely return to work. The guide is supported by a dynamic playbook, which our team has developed to outline a comprehensive list of actions an organization can take, based on their unique situation and immediate needs.</p> | Website link Link to guide |
| Audit and Assurance Insights | KPMG provides curated research and insights on audit and assurance matters for audit committees and boards. | Link to portal |
| KPMG Climate Change Financial Reporting Resource Centre | KPMG's climate change resource centre provides FAQs to help you identify the potential financial statement impacts for your business. | Link to portal |
| You Can't Go Green Without Blue – The Blue Economy is Critical to All Companies' ESG Ambitions | In this report, KPMG considers how leading corporates and investors can take action to capture the value that can be found in a healthy, sustainable ocean economy. | Link to portal |



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KPMG member firms around the world have 227,000 professionals in 146 countries.

