Corporation of the City of Port Coquitlam

Audit Planning Report for the year ended December 31, 2019

KPMG LLP

January 6, 2020, for presentation on January 28, 2020

kpmg.ca/audit

Table of contents

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**.

The contacts at KPMG in connection with this report are:

Brandon Ma, CPA, CA
Engagement Partner
Tel: 604-691-3562
bjma@kpmg.ca

C.J. James, CPA, CA
Quality Review Partner
Tel: 604-527-3635
cjjames@kpmg.ca

Asifa Hirji, CPA, CA
Senior Manager
Tel: 604-777-3921
asifahirji@kpmg.ca

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 consolidated financial statements of the Corporation of the City of Port Coquitlam (the "City") for the year ended December 31, 2019.

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 to the audit. In planning our audit, we have taken into account key areas of audit focus for financial reporting. These include:

- Community Centre capital project,
- Development cost charges, and
- Tangible capital assets.

See pages 3 to 4 for further details.

Changes in operations

The following changes in the City's operations will impact the audit of the consolidated financial statements:

- In 2019, the City opened the first phase of its new Community Centre. The remaining phases of the project continue to be under development.

Changes in accounting standards

PS 3430 *Restructuring Transactions* is effective for the City's 2019 fiscal year. Management does not expect an impact on the consolidated financial statements from the adoption of the new accounting standard.

Executive summary (continued)

Audit materiality

Materiality has been determined based on total expenses. We have determined materiality to be $2,200,000 (2018 - $2,000,000) for the year ended December 31, 2019.

See page 6 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.

Current developments

See pages 8 to 11 for the current developments update.

Areas of audit focus

Area of focus	Why are we focusing here?	Our audit approach
Community Centre capital project (the "Project")	The Project has various elements including the community centre, and a residential and commercial development. A portion of the Project is funded through debt obtained in 2019 from the Municipal Finance Authority ("MFA") and a Building Canada Fund grant.	– Update our planning inquiries with management about the status of the Project. – Update our understanding of the process activities and controls for management's monitoring of the Project. – Select a sample of contractor invoices and agree the amount recorded in tangible capital assets and holdbacks payable to the general ledger. Verify that each invoice has an accompanying report from the third party consultant used by the City to verify the progress payment. – Review the useful lives used to amortize the tangible capital assets that are part of the first phase of the Project to ensure they are reasonable. – Review the land sale receivable from the developer to ensure it is appropriately recorded. – Review the MFA debt agreement and ensure the amount recorded agrees to the cash receipts and the amount reported in the MFA's secure portal. – Review the accounting treatment applied to the Building Canada Fund grant.
Development cost charges ("DCC")	DCC charged by the City are recorded as a liability and recognized as revenue when the expenditures are incurred.	– Update our understanding of the process activities and controls for 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 or letters of credit. – Select a sample of DCC expenditures and agree the amount recorded to supporting documentation.

Areas of audit focus (continued)

Area of focus	Why are we focusing here?	Our audit approach
Tangible capital assets ("TCA")	Each year, the City incurs capital expenditures which are recorded as TCA. Coordination is required between the Finance and Engineering departments to ensure that all projects and assets are accounted for appropriately.	– Update our understanding of the process activities and controls for TCA. – Select a sample of TCA additions, including developer contributed assets, and agree the amount recorded in the general ledger to supporting documentation. Ensure each item is recorded in the appropriate TCA category and is appropriate to capitalize. – Select a sample of TCA disposals and agree any proceeds from the disposition to cash receipts. Recalculate the gain/loss recorded and ensure the appropriate net book value of the TCA disposed has been used in the calculation, and removed from the TCA register. – Perform analytical procedures on amortization expense to assess whether the change in the balance from the prior year is reasonable.

Audit risks

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 Council's oversight of management's process for identifying and responding to the risks of fraud with the City. Accordingly, we ask:

- What are your views about fraud risks at 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 management has established to mitigate these fraud risks?
- Are you aware of or have you identified any instances of actual, suspected, or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?
- Is the City in compliance with laws and regulations?
- Has the City entered into any significant unusual transactions?

Materiality

Materiality determination	Comments	Amount
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. The corresponding amount for the prior year's audit was $2,000,000.	$2,200,000
Benchmark	Based on total expenses for the prior year. This benchmark is consistent with the prior year. The corresponding amount for the prior year's audit was $89,412,000.	$92,128,000
% of Benchmark	The corresponding percentage for the prior year's audit was 2.2%.	2.4%
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the prior year's audit was $100,000.	$110,000

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 Council:

- Corrected audit misstatements
- Uncorrected audit misstatements

Key deliverables and milestones

October 2019	November 2019	January 2020	March/April 2020	May 2020
Planning	Interim fieldwork	Provide Audit Planning Report	Year-end fieldwork	Provide Audit Findings Report and auditors' report

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.

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.

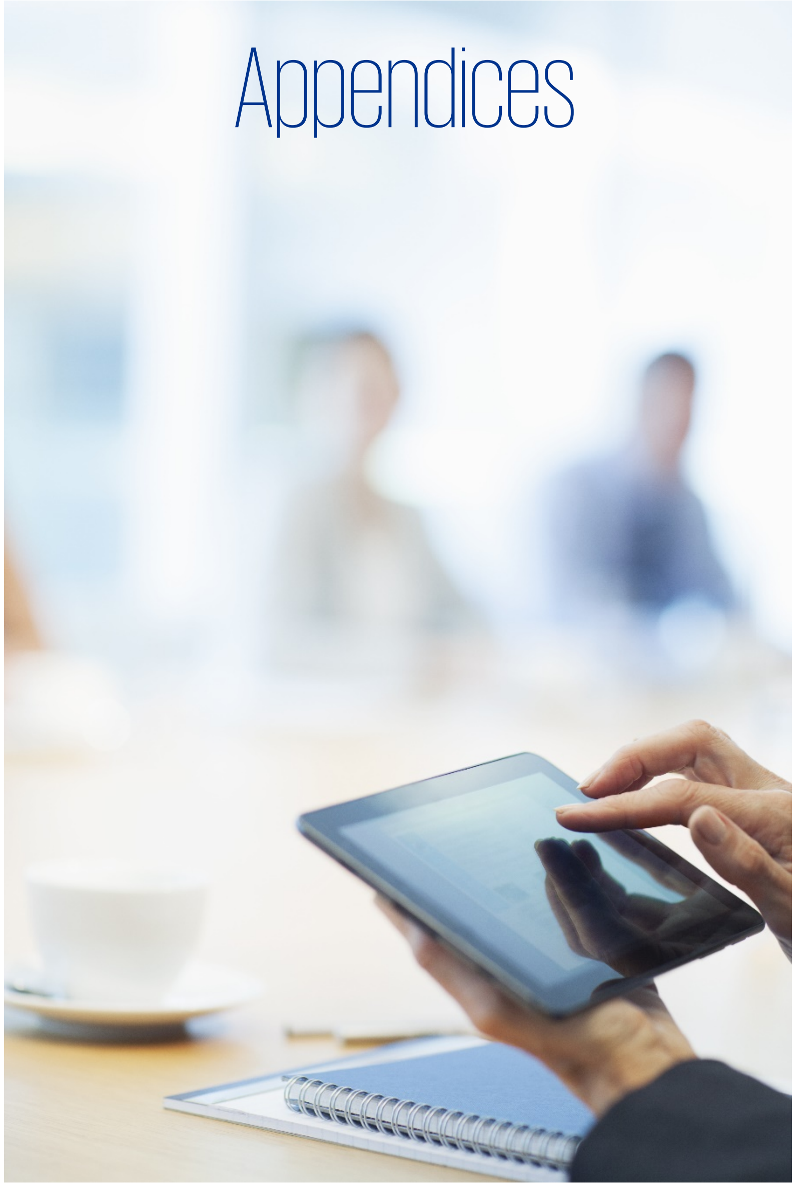
Current developments (continued)

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 was 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



Appendix 1: Audit quality and risk management

Appendix 2: KPMG’s audit approach and methodology

Appendix 3: Required communications

Appendix 4: Lean in Audit™

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

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

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 contract attached.

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 Council.

Audit planning report

Represented by this report.

Audit findings report

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

Independence

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

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.

A Lean in Audit™ session was completed with the City in December 2019.

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.

kpmg.ca/audit