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THE CORPORATION OF THE
CITY OF WHITE ROCK
15322 BUENA VISTA AVENUE, WHITE ROCK, B.C. V4B 1Y6



March 6, 2019

A **FINANCE AND AUDIT COMMITTEE MEETING** will be held in the CITY HALL COUNCIL CHAMBERS, located at 15322 Buena Vista Avenue, White Rock, BC, on MONDAY, MARCH 11, 2019 at **4:00 p.m.** for the transaction of business as listed below.

T. Arthur
Director of Corporate Administration

A G E N D A

Councillor Johanson, Chairperson

1. **AGENDA APPROVAL**

RECOMMENDATION

THAT the Finance and Audit Committee adopt the agenda for the meeting scheduled for March 11, 2019 as circulated.

2. **PREVIOUS MINUTES**

a) Finance and Audit Committee Meeting – February 28, 2019

Page 2

RECOMMENDATION

THAT the Finance and Audit Committee adopt the minutes of their meeting held February 28, 2019 as circulated.

3. **CITY OF WHITE ROCK, AUDIT PLANNING REPORT FOR THE YEAR ENDED DECEMBER 31, 2018**

Page 10

Director of Financial Services to introduce Carol Chiang, Partner, KPMG, and C.J. James, Partner, KPMG, who will speak to the report and respond to questions of Council.

RECOMMENDATION

THAT the Finance and Audit Committee receive the KPMG report dated March 1, 2019 for information.

4. **CONCLUSION OF THE MARCH 11, 2019 FINANCE AND AUDIT COMMITTEE MEETING**

PRESENT: Councillor Johanson, Chairperson
Mayor Walker
Councillor Chesney
Councillor Fathers
Councillor Kristjanson
Councillor Manning
Councillor Trevelyan

STAFF: D. Bottrill, Chief Administrative Officer
T. Arthur, Director of Corporate Administration
J. Gordon, Director of Engineering and Municipal Operations
C. Johannsen, Director of Planning and Development Services
J. Johnstone, Director of Human Resources
S. Kurylo, Director of Financial Services
P. Lemire, Fire Chief
E. Stepura, Director of Recreation and Culture
C. Zota, Manager of Information Technology
S. Johnston, Manager of Budgets and Accounting
S. Yee, Manager of Community Recreation
E. Keurvorst, Manager of Cultural Development

Press: 0
Public: 2

CALL MEETING TO ORDER

The meeting was called to order at 4:00 p.m.

1. AGENDA APPROVAL

2019-F/A-001

It was MOVED and SECONDED

THAT the Finance and Audit Committee adopts the agenda for the meeting scheduled for February 28, 2019 as circulated.

CARRIED

2. PREVIOUS MINUTES

a) Finance and Audit Committee Meeting – July 23, 2018

2019-F/A-002

It was MOVED and SECONDED

THAT the Finance and Audit Committee adopts the minutes of their meeting held July 23, 2018 as circulated.

CARRIED

3. 2019 TO 2023 DRAFT FINANCIAL PLAN – GENERAL FUND OPERATING BUDGET

Corporate report dated February 28, 2019 from the Director of Financial Services titled “2019 to 2023 Draft Financial Plan – General Fund Operating Budget”.

The following questions / discussion points were noted:

Financial Plan schedule proposed:

- March 11, Public Consultation (proposed public meeting date)
- April 15, Final Amendments and three (3) readings of the Bylaw
- April 29, Adoption of the Financial Plan Bylaw and three (3) readings of the tax and utility bylaws
- May 13, Adoption of Property Tax and Utility Rate Bylaws

- Janitorial Services: request for proposal was done in 2018, awarded to outside services with a three (3) year contact
- Draft General Fund Operating Budget / impact of Community Amenity Contributions (CAC's). It was noted that the CAC's are accounted for in the budget as one (1) time funds to be spent in accordance with bylaw
- Increase in fire calls (medical volume 60 – 65%, more simultaneous calls due to more population) having five (5) man crews is a way to address this
- Communications staff, how many are there now (three full time)
- 3.58% increase in property tax
What are neighboring municipalities doing this year in regard to their property tax rate? The following was verbally noted:
Surrey 2.9%
Langley City 6.95%
Port Moody 5.55%
Richmond 4.82
Delta 2.99 %
Township of Langley 4.95%
Port Coquitlam 2.99 %
Vancouver 4.5%
Pitt Meadows 4.21%
- What have the past property tax rates been for White Rock?
White Rock 2018 = 3.6% and two (2) years prior there were some tax reductions due to changes in solid waste.
- The parkade is included as part of the waterfront parking plan
- Fraser Valley Regional Library Levy is \$900,000 (includes staff, administration, management of asset collection and costs of moving the books from one library to another)
Has the City reviewed partnering with the City of Surrey library for cost savings?
No, however the City has reviewed an independent library in the past several years but it was determined we are getting good value compared to a stand alone library
- City Legal Fees
- Peninsula Productions Lease Rate (5 year lease): staff will get back on this
- It has been found that the RCMP will work together with each jurisdiction (if the City of Surrey were to have its own municipal police force)
- Staff positions previously approved - the amounts are not included in the information, they were verbally stated as follows:
1) Full Time Plans Examiner (2019 = \$80,000 and 2020-2023 = \$336,000)
2) Full Time Engineering/Public Works Inspector (2019 = \$102,000 and 2020-2023 = \$427,000)

- 3) Corporate Advertising Budget (2019 = \$6,000 and 2020-2023 = \$25,000)
 - 4) Temporary Full Time Engineering Technical Assistant (2019 = \$42,000)
 - 5) Council Contingency (2019 = \$50,000)
 - 6) Temporary Full Time Human Resource Advisor (2020 = \$106,000)
 - 7) Temporary Employee Health and Safety Assistance (2020 = \$17,000)
 - 8) Temporary Co-op Student (2020 = \$17,000)
- \$15M in CAC's funds are expected, what are there extra costs for the needed infrastructure that comes with additional density.
Part of this process is a review of the Development Cost Charge (DCC) Bylaw as it will help identify growth impact
 - Solid Waste Review, Council have asked for the review so the best value can be sought for the taxpayer, it will take time (not expected to be completed until late this year)
 - Strategic Priorities: CAC's can be used for capital projects, a funicular would be considered a capital project
 - City Hall Feasibility Study, a corporate report is coming to Council March 11, 2019, and it is expected that direction by Council will be given at that time
 - Rail Relocation Study, noted it is not listed in the 2019 budget (\$25,000), the funds were not utilized in 2018 so they will now be carried over
 - Sea Festival, \$50,000 would like the City to approach the White Rock Business Association (BIA) to fund this – staff noted it would be an inquiry made
 - Would like to invite the BIA to share their budget with the City
 - Trolley, if Council wished to proceed with this they could do so, however it was noted that the previous provider is no longer offering this service
 - \$175,000 for playground pathway and picnic area in partnership with Peace Arch Hospital Foundation (this is the entire cost of replacement placed in the budget in case no contribution is received)
 - One time requests currently not funded (ex: Peace Arch Elementary playground) – Grants-In-Aid not meant to cover these amounts being asked

2019-F/A-003

It was MOVED and SECONDED

THAT the Finance and Audit Committee directs the following in regard to the 2019-2023 budget:

1. Peace Arch Elementary and White Rock Elementary each be given \$10,000 for Playground Equipment; and
2. Peace Arch Elementary be given \$2,500 towards equipment for their Visual Arts Class.

CARRIED

Councillor Fathers departed the meeting at 6:07 p.m.

It was noted that City Communications request will not be added if it is not considered at this time:

2019-F/A-004

It was MOVED and SECONDED

THAT the Finance and Audit Committee endorses the funds for one (1) year for Temporary Full Time Assistance for City Communications be added to the 2019-2023 Financial Plan.

DEFEATED

Councillors Chesney, Manning and Trevelyan voted in the negative
(there were six members of the Committee present at the vote)

RECESS / RECONVENED

The Chairperson called a recess at 6:27 p.m. stating the meeting will be reconvened in thirty (30) minutes.

The meeting was reconvened at 7:01 p.m. with all noted members of Council and staff in attendance.

- \$7M Sanitary Sewer Fund Infrastructure Reserve (borrowing of funds to pay for CAC projects until the funds were received, there were received so money being moved back)
- Would like to see a policy in regard to the City reserve funds so there is an understanding of how they are utilized

2019-F/A-005

It was MOVED and SECONDED

THAT the Finance and Audit Committee:

1. Receives for information the corporate report dated February 28, 2019, from the Director of Financial Services, titled “2019 to 2023 Draft Financial Plan – General Fund Operating Budget”;
2. Endorses the presented Draft Financial Plan figures and assumptions for the General Fund Operating Budget or provide direction on amendments to be made; and
3. Directs staff to proceed with scheduling a public meeting and placing an advertisement in the newspaper to notify the public of the opportunity for public comments and / or requesting written comments or questions, based on the information presented in this corporate report as amended.

CARRIED

SUBSEQUENT MOTION

2019-F/A-006

It was MOVED and SECONDED

THAT the Finance and Audit Committee directs that the public meeting for the Financial Plan for 2019 – 2023 be held on Wednesday, March 13, 2019.

CARRIED

SUBSEQUENT MOTION

2019-F/A-007

It was MOVED and SECONDED

THAT the Finance and Audit Committee directs that the public meeting for the Financial Plan for 2019 – 2023 be scheduled to begin at 6:00 p.m. on Wednesday, March 13, 2019.

CARRIED

4. **2019 TO 2023 DRAFT FINANCIAL PLAN – GENERAL FUND ASSET IMPROVEMENT BUDGET**

Corporate report dated February 28, 2019 from the Director of Financial Services titled “2019 to 2023 Draft Financial Plan – General Fund Asset Improvement Budget”.

The following questions / discussion points were noted:

- Repair of the White Rock Pier - mirco pilings
- Inquiry as to how much CAC’s were used for Memorial Park and the Parkade projects - staff will forward this information

2019-F/A-008

It was MOVED and SECONDED

THAT the Finance and Audit Committee directs the following two (2) projects be removed from the 2019-2023 budget:

1. \$2.63M for Extension of the Promenade; and
2. \$2.37M for the Overhead Walkway.

CARRIED

Mayor Walker voting in the negative

2019-F/A-009

SUBSEQUENT MOTION

It was MOVED and SECONDED

THAT the Finance and Audit Committee directs staff work with Transport Canada to review a reasonable cost measure that would address their concerns and safety however also make economic sense - replacing the project of an overhead walkway.

CARRIED

- Building replacement, Facility Master Plan being updated in 2019, funds are put into a capital works reserve for these works
- Site at 1510 Johnston Road was to be considered as a Town Square, would like see other options for the property
- Is it the City’s responsibility for bus stop accessibility and bus shelter improvements? Why would TransLink not cover that? Staff will forward information on this
- Centennial, skate office and counter repair at \$10,000 appears to be high, staff noted that they would obtain three (3) quotes prior to the work being done
- \$77,000 hospital parking meter upgrades, the old machines do not accept cell phone payment

2019-F/A-010

It was MOVED and SECONDED

THAT the Finance and Audit Committee directs staff to enter into negotiations with the Burlington Northern Santa Fe (BNSF) to review a vegetation plan that includes replanting of trees on the hump.

CARRIED

- Staff were asked to forward the vegetation on the hump plan to Council for their reference. It was clarified that the hump is BNSF land that the City does not lease, if the City wanted to plant vegetation / trees they must obtain permission from BNSF.

2019-F/A-011

It was MOVED and SECONDED

THAT the Finance and Audit Committee:

1. Receives for information the corporate report dated February 28, 2019, from the Director of Financial Services, titled “2019 to 2023 Draft Financial Plan – General Fund Asset Improvement Budget”;
2. Endorses the presented Draft Financial Plan figures and assumptions for the General Fund Asset Improvement Budget or provide direction on amendments to be made; and
3. Directs staff to proceed with scheduling a public meeting and placing an advertisement in the newspaper to notify the public of the opportunity for public comments and/or requesting written comments or questions, based on the information presented in this corporate report as amended (Wednesday, March 13, 2019 at 6:00 p.m. at City Hall in the Council Chambers).

CARRIED

5.

2019 TO 2023 DRAFT FINANCIAL PLAN – WATER UTILITY

Corporate report dated February 28, 2019 from the Director of Financial Services titled “2019 to 2023 Draft Financial Plan – Water Utility”.

The following questions / discussion points were noted:

- By the end of 2023, final increase of water rates to water users will be 28.8%

2019-F/A-009

It was MOVED and SECONDED

THAT the Finance and Audit Committee:

1. Receives for information the corporate report dated February 28, 2019, from the Director of Financial Services, titled “2019 to 2023 Draft Financial Plan – Water Utility;”
2. Endorses the presented Draft Financial Plan figures and assumptions for the Water Utility or provide direction on amendments to be made; and
3. Direct staff to proceed with scheduling a public meeting and placing an advertisement in the newspaper to notify the public of the opportunity for public comments and/or requesting written comments or questions, based on the information presented in this corporate report as amended (Wednesday, March 13, 2019 at 6:00 p.m. at City Hall in the Council Chambers).

CARRIED

6. **2019 TO 2023 DRAFT FINANCIAL PLAN – DRAINAGE UTILITY**

Corporate report dated February 28, 2019 from the Director of Financial Services titled “2019 to 2023 Draft Financial Plan – Drainage Utility”.

The following questions / discussion points were noted:

- It was clarified that the Habgood Pump Station is also utilized by the Semiahmoo First Nation for drainage of their property
- It was suggested that a grant application in regard to the pump station be done in cooperation / combined with Semiahmoo First Nation
This will be a future item for a Council to Council meeting (Habgood Pump Station)

2019-F/A-010

It was MOVED and SECONDED

THAT the Finance and Audit Committee:

1. Receives for information the corporate report dated February 28, 2019, from the Director of Financial Services, titled “2019 to 2023 Draft Financial Plan – Drainage Utility”;
2. Endorses the presented Draft Financial Plan figures and assumptions for the Drainage Utility or provide direction on amendments to be made; and
3. Directs staff to proceed with scheduling a public meeting and placing an advertisement in the newspaper to notify the public of the opportunity for public comments and/or requesting written comments or questions based on the information presented in this corporate report as amended (Wednesday, March 13, 2019 at 6:00 p.m. at City Hall in the Council Chambers).

CARRIED

7. **2019 TO 2023 DRAFT FINANCIAL PLAN – SANITARY SEWER UTILITY**

Corporate report dated February 28, 2019 from the Director of Financial Services titled “2019 to 2023 Draft Financial Plan – Sanitary Sewer Utility”.

The following questions / discussion points were noted:

- It was clarified that the years selected for various projects are based on priorities by the Engineering Department as well when the road work is being done to coordinate not having to go back a redo completed roads

2019-F/A-011

It was MOVED and SECONDED

THAT the Finance and Audit Committee:


1. Receives for information the corporate report dated February 28, 2019, from the Director of Financial Services, titled “2019 to 2023 Draft Financial Plan – Sanitary Sewer Utility”;
2. Endorses the presented Draft Financial Plan figures and assumptions for the Sanitary Sewer Utility or provide direction on amendments to be made; and
3. Directs staff to proceed with scheduling a public meeting and placing an advertisement in the newspaper to notify the public of the opportunity for public comments and/or requesting written comments or questions, based on the information presented in this corporate report as amended (Wednesday, March 13, 2019 at 6:00 p.m. at City Hall in the Council Chambers).

CARRIED

8. CONCLUSION OF THE FEBRUARY 28, 2019 FINANCE AND AUDIT COMMITTEE MEETING

The Chairperson declared the meeting concluded at 8:53 p.m.

Councillor Johanson
Chairperson



Tracey Arthur, Director of
Corporate Administration

City of White Rock

Audit Planning Report
for the year ended December 31, 2018

KPMG LLP

March 1, 2019 for the Finance and Audit
Committee meeting on March 11, 2019

kpmg.ca/audit



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The contacts at KPMG in connection with this report are:

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Executive Summary

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



Changes in operations

There are no significant changes in the operations that will impact the audit of the City's financial statements.



Areas of audit focus and risks

Our audit is risk-focused. Our assessment is based on a variety of factors that include our knowledge of your organization, the susceptibility of the account balances to the risk of material misstatement, size of the balance, inherent complexity, and level of uncertainty in measurements as well as significant external factors. The following are the key areas of focus of our audit:

- Tangible capital assets
- Revenue recognition and deferred revenue
- Expenses, including payroll
- Presumed risk of management override of controls.

See pages 3-6.



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



Audit Team

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



Audit materiality

We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. Materiality has been determined based on prior year actual expenses. Materiality has been determined as \$1,250,000.

See page 7.



Independence

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow the Finance and Audit Committee's approved protocols.



Effective Communication

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

See **Appendix 4**.



Current developments

Please refer to pages 20–23 for upcoming accounting changes relevant to the City.

This Audit Planning Report should not be used for any other purpose or by anyone other than the Finance and Audit Committee. 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.

Areas of audit focus

Area of focus

Why are we focusing here?

Tangible capital assets

Tangible capital assets are a significant asset for the City. The assets owned by the City are complex and may require estimation.

Our audit approach

- Obtain an understanding of the process activities and controls over tangible capital assets.
- Select a sample of tangible capital asset additions, including developer contributions, and agree the balance recorded to supporting documentation, and ensure it is appropriate to capitalize the costs.
- Select a sample of tangible capital asset disposals and recalculate the gain/loss recorded. Agree any proceeds from disposition to cash receipts.
- Review management's assessment of impairment, if any, to tangible capital assets. Assess whether the facts related to any impairment issues identified support a write down to the asset.

Areas of audit focus (continued)

Area of focus

Why are we focusing here?

Revenue recognition and deferred revenue

Revenue is recorded on an accrual basis and is recognized when it is earned and measurable. Revenue relating to future periods, including property taxes, development cost charges (“DCCs”), government grants, contributions for future capital works, and amounts collected for building permits and facility upgrades, are reported as deferred revenue and recognized when earned.

As contributions are received for specified purposes and sometimes contain restrictions, there is a need to determine whether the amounts should be deferred or recognized as revenue.

Our audit approach

- Obtain an understanding of the process activities over revenues and contributions received, amounts spent as well as deferral of unspent amounts.
- Evaluate the design and implementation of controls over contributions received and expenditures incurred, as well as management’s review of related balances.
- Review the accounting for all new agreements to determine whether restrictions exist and how the funds should be recognized and/or deferred.
- Perform substantive procedures, including vouching and review of supporting documentation related to contributions received, as well as expenses incurred, to ensure that revenues and expenses are appropriately recognized and deferred contributions are appropriately recorded.
- For DCCs, review the year-end fund balances and identify any funds with a negative balance. For funds with negative balances, inquire with management about the plan for future collection of DCC.
- For Community Amenity Charges, perform substantive test of detail work over related revenue recognized and review related agreements to ensure appropriateness of amounts recognized.



Areas of audit focus (continued)

Area of focus

Why are we focusing here?

Expenses, including payroll

The City's expenses are closely monitored against Council approved budgets.

Our audit approach

- Obtain an understanding of the process activities and controls for expenses, including payroll.
- Analyze the change in expenses relative to the prior year based on changes in operations.
- Analyze the change in payroll expense relative to the prior year based on changes in head count and pay rates.
- Perform a search for unrecorded liabilities to ensure expenses are recorded in the appropriate fiscal year.



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

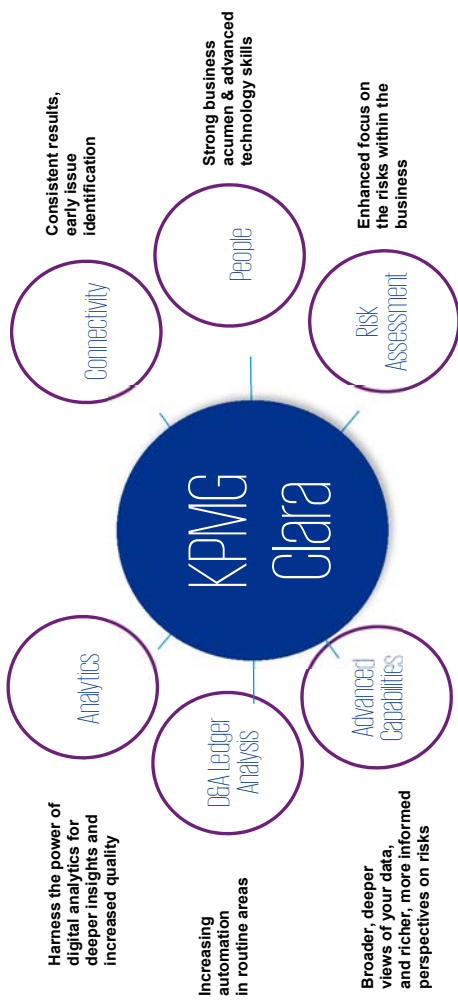
The determination of materiality requires professional judgment and is based on a combination of quantitative and qualitative assessments including the nature of account balances and financial statement disclosures.

Materiality determination	Comments	Amount
Metrics	Relevant metrics for public sector organizations include total assets, total revenues and total expenses.	Total expenses
Benchmark	Based on actual prior year expenses per the audited financial statements (2017 benchmark – prior year expenses \$34,790,034).	\$40,898,472
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 (Prior year Materiality - \$1,050,000).	\$1,250,000
% of Benchmark	Professional standards allow for a range of 0.5% to 3% of the chosen benchmark (Prior year % of Benchmark - 3%).	3%
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit (prior year audit misstatement threshold - \$52,500).	\$62,500
<p>Materiality represents the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.</p> <p>To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.</p>		
<p>We will report to the Finance & Audit Committee:</p>		
 Corrected audit misstatements		
 Uncorrected audit misstatements		

The audit of today, tomorrow & the future

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

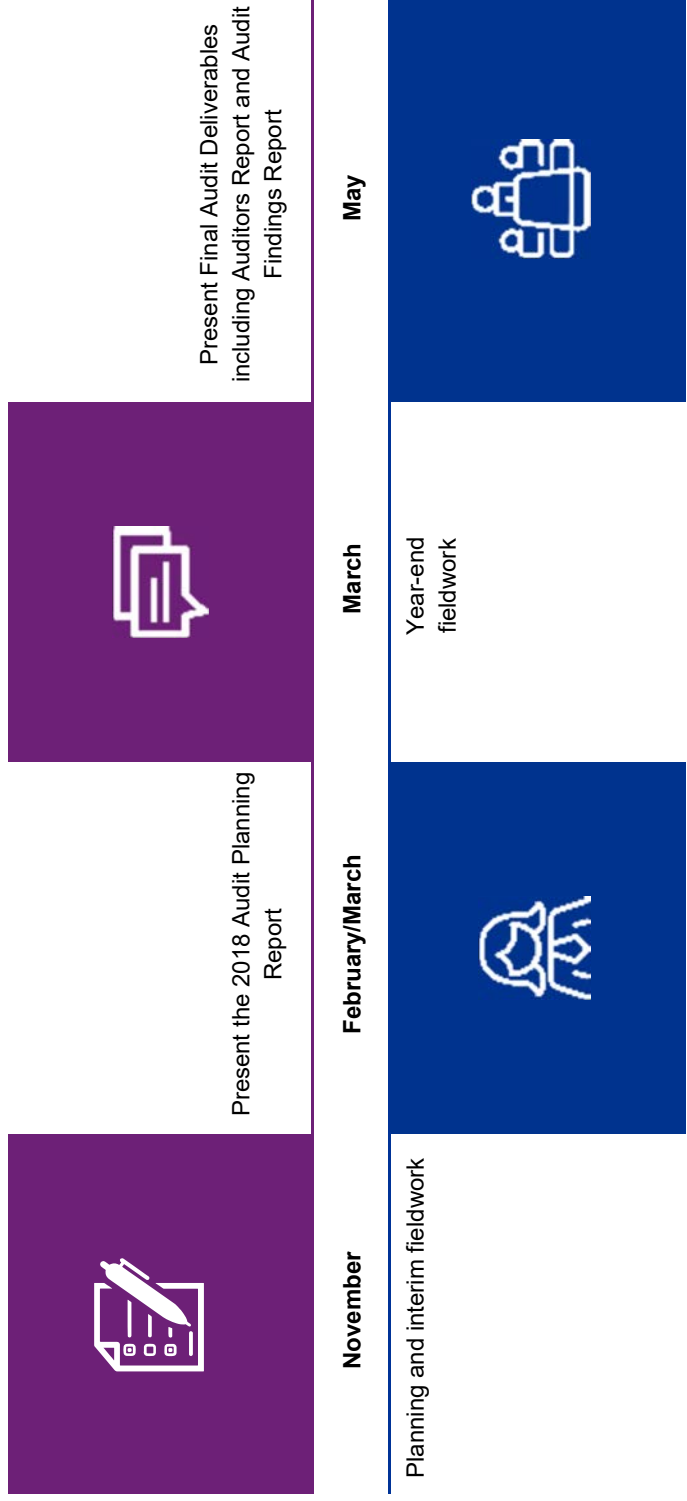
Technology empowers us with the ability to perform deep analysis over your financial information, focusing our effort and interactions on the areas of greatest risk and minimizing disruption to your business.



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.



Key deliverables and milestones





Annual Inquiries

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

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

Please provide your response to the above questions to **Carol Chiang**, Engagement Partner either by phone at **604-527-3652** or email at cchiang@kpmg.ca.



The 2018 Auditors' Report

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

- 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, if applicable.
- Separate section on "Other Information" (e.g. annual report), if applicable.
- 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 (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' Report (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 White Rock

Opinion

We have audited the financial statements of the City of White Rock (the "City"), which comprise:

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

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2018, and its results of operations, its changes in net financial assets and its cash flows for the year then ended in accordance with the 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 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 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' Report (continued)

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 City's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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.

The 2018 Auditors' Report (continued)

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

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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.
- 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 financial statements, including the disclosures, and whether the 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' Report (continued)

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

INDEPENDENT AUDITORS' REPORT

To the City of White Rock 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 White Rock (the "City") 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 City 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 City in accordance with the ethical requirements that are relevant to our audit of the Certificate in Canada and we have fulfilled our other ethical 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' Report (continued)

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

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 City 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 City 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 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 charges with governance are responsible for overseeing the City'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. 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.

The 2018 Auditors' Report (continued)

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

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 City'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 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 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 City 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



The 2018 Auditors' Report (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 White Rock's (the "City") 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's compliance with the specified requirements and for preparing the City's statement of compliance. Management is also responsible for such internal control as management determines is necessary to enable the City'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' Report (continued)

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

We believe the evidence we obtained is sufficient and appropriate to provide a basis for our opinion. Information relevant to the City'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 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'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 or the City'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

The following is a summary of the current developments in the Public Sector Accounting Standards that are relevant to the City:

Standard	Summary and implications
Asset Retirement Obligations	<ul style="list-style-type: none">- 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:<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">- 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
<p>Financial Instruments and Foreign Currency Translation</p>	<ul style="list-style-type: none"> - New accounting standards, PS3450 <i>Financial Instruments</i>, PS2601 <i>Foreign Currency Translation</i>, PS1201 <i>Financial Statement Presentation</i> and PS3041 <i>Portfolio Investments</i> 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.
<p>Employee Future Benefit Obligations</p>	<ul style="list-style-type: none"> - The Public Sector Accounting Board ("PSAB") has initiated a review of sections PS3250 <i>Retirement Benefits</i> and PS3255 <i>Post-Employment Benefits, Compensated Absences and Termination Benefits</i>. 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 was February 1, 2019. - 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")	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - 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)

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.- 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 <i>Financial Statement Concepts</i> and PS 1100 <i>Financial Statement Objectives</i>. 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 <i>Financial Statement Presentation</i>. The SOP proposes:<ul style="list-style-type: none">- 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



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*.

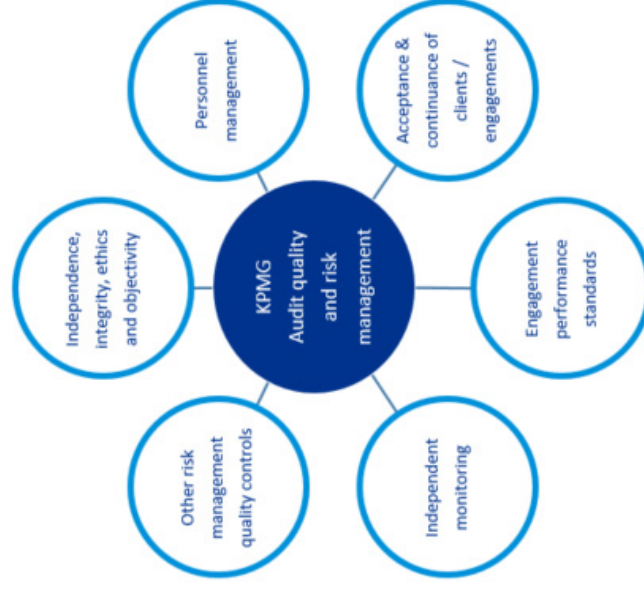
We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.

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 of publicly listed 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



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

Collaboration in the audit

A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team

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: 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 actionable quality and productivity improvement observations.

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



How it works

Lean in Audit employs 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 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 previously 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 Finance & Audit Committee.



Audit planning report

This report.



Audit findings report

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



Required inquiries

Professional standards require that during the planning of our audit we obtain your views on risk of fraud and other matters. We make similar inquiries of management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly.



Independence

At the completion of our audit, we will confirm our independence to the Finance & Audit Committee.



kpmg.ca/audit



KPMG LLP, an Audit, Tax and Advisory firm (kpmg.ca) and a Canadian limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International Cooperative ("KPMG International").

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