



The Corporation of the City of White Rock

Audit Findings Report for the year ended
December 31, 2020

KPMG LLP

Dated May 4, 2021 for the Finance and Audit Committee meeting on
May 10, 2021

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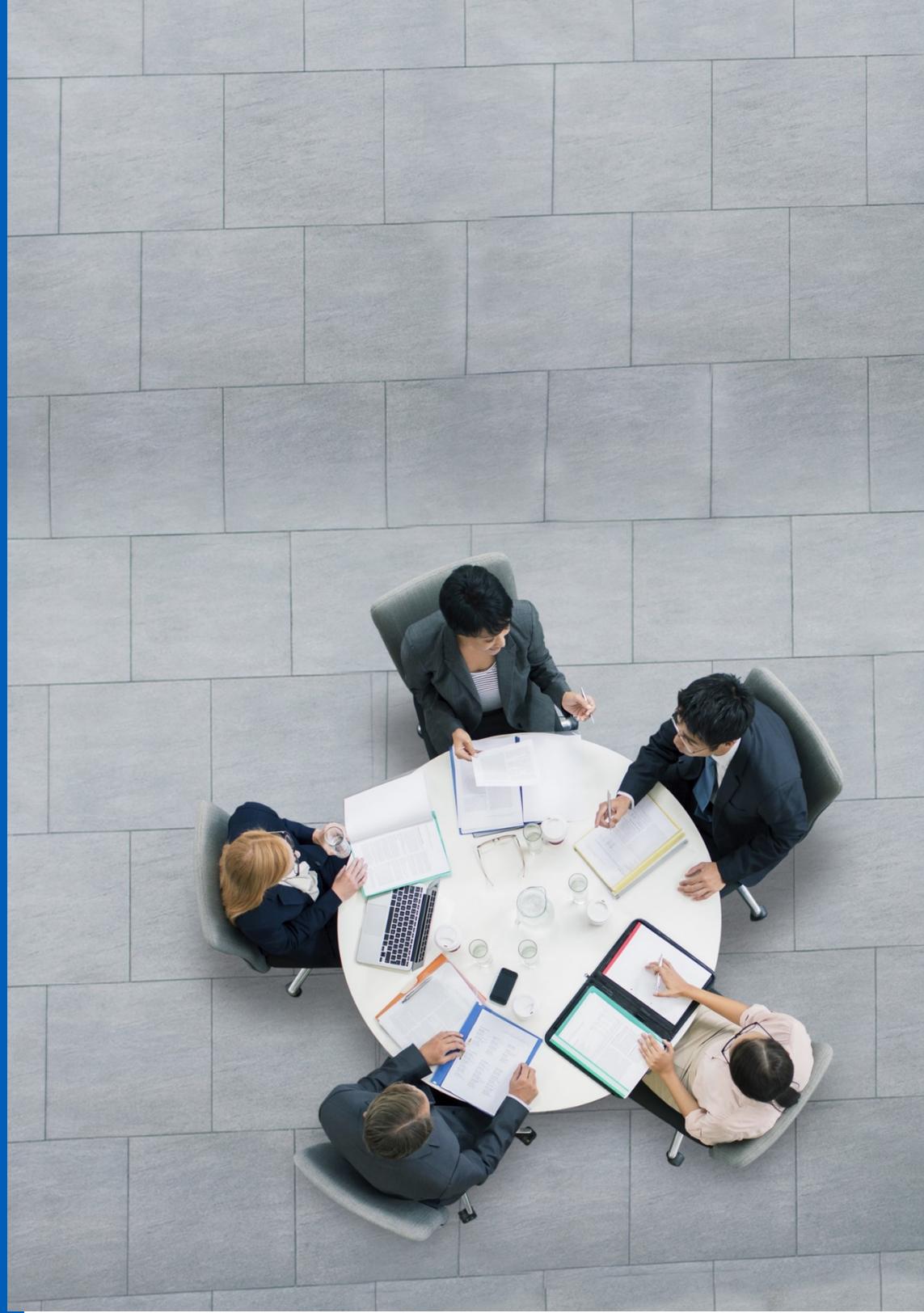


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At the end of the day, we measure our success from the **only perspective that matters – yours**.



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Executive summary

Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a member of the Finance and Audit Committee (the “Committee”), in your review of the results of our audit of the financial statements of the Corporation of the City of White Rock (the “City”) as at and for the year ended December 31, 2020. This Audit Findings Report builds on the Audit Plan dated November 30, 2020.

What’s new in fiscal 2020

There have been significant changes in fiscal 2020 which impacted financial reporting and our audit:

- COVID-19 pandemic; and
- New auditing standard for estimates.

See pages 5 to 6 further details

Changes from the audit plan

In our audit plan, we determined materiality to be \$1,500,000, based on budgeted total expenses. As the actual expenses was lower than the budgeted total expenses, we revised materiality accordingly. The following revised amounts have been determined:

- Materiality - \$1,300,000; and
- Audit misstatement posting threshold - \$65,000

Materiality has been set at approximately 3% of actual expenses and the audit misstatement posting threshold has been set at 5% of materiality, consistent with our audit plan. Our audit was performed using revised materiality.

There have been no other significant changes regarding our audit from the Audit Planning Report previously provided to you.

Finalizing the audit

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include:

- Receipt of legal letter confirmation;
- Completing our discussions with the Committee;
- Obtaining the signed management representation letter;
- Obtaining evidence of Council’s acceptance of the financial statements; and
- Completing subsequent event review procedures up to the date of Council’s acceptance of the financial statements.

We will update Committee on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors’ report, a draft of which is attached to the draft financial statements, will be dated upon the completion of any remaining procedures.

Areas of audit focus

Our audit is risk-focused. We have not identified any significant risks. However, as part of our audit, we identified areas of audit focus which include:

- Tangible capital assets;
- Revenue recognition and deferred revenue;
- Expenses, including payroll;
- Valuation of post-employment benefits;
- Recreation management system conversion;
- Contingencies; and
- Presumed risk of management override of controls.

See pages 7 to 13 for further details.

Executive summary (continued)

Adjustments and differences

Adjustments and differences include disclosure and presentation items. Professional standards require that we request of management and the Committee that all identified differences be corrected.

Uncorrected differences

We identified a presentation and disclosure misstatement related to the presentation of the amended annual budget as a basis of comparison on the statement of operations and the statement of changes in net financial assets. This misstatement is not considered material to the financial statements.

Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

See Appendix 2 - *Management Representation Letter* for further details.

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

See page 15 for further details.

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting.

See page 16 for further details.

Independence

We confirm that we are independent with respect to the City within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from January 1, 2020 up to the date of this report.

Current developments

There have been no significant updates to the current developments materials which were provided to you in our Audit Planning Report.

What's new in 2020

COVID-19 pandemic

Area of impact	Key observations
Risk assessment	<ul style="list-style-type: none">- We performed a thorough risk assessment specifically targeted at the impacts of the COVID-19 pandemic as described in our audit plan, which also, included an assessment of fraud risk factors. No issues or additional areas were identified.
Working remotely	<ul style="list-style-type: none">- We used virtual work rooms, video conferencing, and internally-shared team sites to collaborate in real-time, both amongst the audit team as well as with management.- We used secure technologies to conduct walkthroughs, perform tests of controls and substantive tests.
Financial reporting	<ul style="list-style-type: none">- We obtained an understanding of any changes to process activities and controls that have been implemented due to remote working arrangements. We noted that there were no significant changes to financial processes or controls of the City with respect to financial reporting.- We reviewed management's assessment of the implications of COVID-19 to the City's operations and the financial effects. The impacts on financial reporting included: reductions in parking revenue, parks, recreation and cultural services revenue, and parks, recreation and cultural services expenses. These impacts have been reflected in the financial statements. We noted that there were no other items of significant impact to the financial statements.- We reviewed the accounting treatment for the COVID-19 Safe Restart grant received by the City and noted that it was appropriately recognized as revenue. We agreed the amount received to the cash received and the grant letter from the Province of BC.- Management has included additional disclosure in the notes to the financial statements (within note 1) with respect to the effect of the COVID-19 pandemic for fiscal year 2020 and the nature of any potential future impact to the City. We reviewed the note disclosure and concur that management has appropriately disclosed the impact of COVID-19 on the City's operations.

What's new in 2020 (continued)

New auditing standard

Standard	Key observations
CAS 540, Auditing Accounting Estimates and Related Disclosures	<ul style="list-style-type: none">- This new audit standard was applied on all estimates within the financial statements that had a risk of material misstatement due to estimation uncertainty and not just “key estimates”, “critical accounting estimates”, or “estimates with significant risk”.- The granularity and complexity of the new standard along with our interpretation of the application of that standard necessitated more planning and discussion and increased involvement of more senior members of the engagement team.- We performed more granular risk assessments based on the elements making up each accounting estimate such as the method, the assumptions used, the data used and the application of the method.- We considered the potential for management bias.- We assessed the degree of uncertainty, complexity, and subjectivity involved in making each accounting estimate to determine the level of audit response. The higher the level of response, the more persuasive the audit evidence was needed.- We performed a review of the estimate used to determine the prior year provision for contingencies balance to assess whether the estimation methodology remains appropriate for the 2020 year-end. There were no issues noted in our audit of the estimate of the provision for contingencies.

Areas of audit focus

Area of audit focus	New or changed from Audit Planning Report?	Estimate?
Tangible capital assets (“TCA”)	No	Yes – the established useful lives of tangible capital assets for purposes of depreciation and valuation of contributed assets. No estimation uncertainty with a risk of material misstatement that was more than remote was identified.

Our audit approach

We performed the following procedures:

- We updated our understanding of the process activities and controls over TCA, including the year-end process around identifying assets for impairment.
- We obtained the TCA continuity schedule and verified its mathematical accuracy.
- We tested TCA additions, including contributed assets, through inspection of supporting documentation to determine if capital in nature and amounts recorded are accurate.
- We tested TCA dispositions including inspection of supporting documentation and assessed appropriateness of the gain or loss recorded.
- We reviewed the reasonableness of estimated useful lives and amortization recognized.
- We assessed management’s assessment of impairment for TCA .
- We reviewed the financial statement note disclosure.

Significant findings

- No significant issues were noted in the audit testing completed.

Areas of audit focus (continued)

Area of audit focus	New or changed from Audit Planning Report?	Estimate?
Revenue recognition and deferred revenue	No	No

Our audit approach

We performed the following procedures:

- We updated our understanding of the process activities over revenues and contributions received, amounts spent as well as deferral of unspent amounts.
- We evaluated the design and implementation of controls over contributions received and expenditures incurred, as well as management's review of related balances.
- We reviewed the accounting treatment for significant new revenue agreements, including community amenity charges ("CAC"), to determine whether restrictions exist and how the funds should be recognized into revenue and/or deferred.
- We performed 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.
- We reconciled permits to new development cost charges ("DCC") recorded in the year and inspected bylaws showing appropriation for the specified purpose.
- We reviewed the year-end DCC fund balances and assessed whether any funds had negative balances.

Significant findings

- No significant issues were noted in the audit testing completed.

Areas of audit focus (continued)

Area of audit focus	New or changed from Audit Planning Report?	Estimate?
Expenses, including payroll	No	No

Our audit approach

We performed the following procedures:

- We updated our understanding of the process activities and controls for expenses, including payroll.
- We analyzed the change in payroll expense relative to the prior year based on changes in head count and pay rates. We also performed testing over head counts and pay rates changes to supporting documentation.
- We performed a search for unrecorded liabilities and tested whether sample expenses were recorded in the appropriate fiscal year.

Significant findings

- No significant issues noted in the audit testing completed.

Areas of audit focus (continued)

Area of audit focus	New or changed from Audit Planning Report?	Estimate?
Valuation of post-employment benefits	No	Yes – the actuarial valuation of post-employment benefits. No estimation uncertainty with a risk of material misstatement that was more than remote was identified.

Our audit approach

We performed the following procedures:

- We updated our understanding of the process activities and controls over employee future benefits.
- We obtained the actuarial report prepared by George & Bell Consulting and agreed the liability amount in the report to the amount recorded by the City.
- We performed an analytical review over the amounts recorded.
- We assessed the reasonableness of the significant assumptions used in the valuation, including changes in assumptions from the prior year.
- We performed testing over the data provided by the City to George & Bell Consulting to supporting documentation.
- We reviewed the financial statement note disclosure.

Significant findings

- No significant issues were noted in the audit testing completed.

Areas of audit focus (continued)

Area of audit focus	New or changed from Audit Planning Report?	Estimate?
Recreation management system conversion (CLASS to PerfectMind)	No	No

Our audit approach

In 2020, the City’s legacy recreation management system, CLASS, was replaced with a new system, PerfectMind. As PerfectMind serves as the basis for the recording and recognition of parks, recreation, and culture revenues streams going forward, we considered the impact of the system conversion on the City’s financial reporting and the financial statements as a whole. We performed the following procedures:

- We reviewed the City’s conversion procedures and controls around verifying the accurate and complete data transfer to PerfectMind.
- We obtained an understanding of the financial reporting processes and controls impacted by the conversion to the new system.
- We performed testing over the data transferred from CLASS to PerfectMind to test whether the information was accurately imported into the new system at the time of conversion.
- We performed substantive audit procedures over the revenue recorded within PerfectMind as part of the financial statement audit.

Significant findings

- No significant issues were noted in the audit testing completed.

Areas of audit focus (continued)

Area of audit focus	New or changed from Audit Planning Report?	Estimate?
Contingencies	No	Yes – There are various lawsuits or claims pending against and by the City. Management and the City’s external legal counsel assess the outcome of such claims and any impact on the financial statements. Provisions for contingencies are recorded when appropriate. Estimation uncertainty with a risk of material misstatement that was more than remote was identified.

Our audit approach

In addition to the additional procedures noted in the section “What’s new in 2020”, we performed the following procedures:

- We discussed legal claims with management as well as reviewed legal invoices and Council meeting minutes.
- We obtained written confirmation from the City’s external legal counsel in testing whether amounts have been accrued for outcomes which are likely and where the contingent loss amount is estimable at year end.
- We reviewed the financial statement note disclosure.

Significant findings

- No significant issues were noted in the audit testing completed.

Audit risks

Professional requirements

Fraud risk from management override of controls

Why is this 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

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 significant estimates.
- Evaluating the business rationale of significant unusual transactions.

Significant findings

There were no significant issues noted in our testing.

Data & Analytics in the audit

We have integrated Data & Analytics (“D&A”) into our audit approach. Use of innovative D&A allows us to analyze greater quantities of data, dig deeper and deliver more value from our audit. We believe that D&A improves both the quality and effectiveness of our audit by allowing us to analyze large volumes of financial information quickly, enhancing our understanding of your business as well as enabling us to design procedures that better target risks. We have summarized our use of D&A in the audit as follows:

Area of audit focus	D&A tools and routines	Our results
Journal entry testing	– We used KPMG data analytics software (IDEA) to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing.	There were no significant issues noted in our testing.

Significant accounting policies and practices



Significant accounting policies

- There were no initial selections of or changes to the new significant accounting policies and practices.
 - There were no significant accounting policies in controversial or emerging areas.
 - There were no issues noted with the timing of the City's transactions in relation to the period in which they were recorded.
 - There were no issues noted with the extent to which the financial statements are affected by a significant unusual transaction and extent of disclosure of such transactions.
 - There were no issues noted with the extent to which the financial statements are affected by non-recurring amounts recognized during the period and extent of disclosure of such transactions.
-



Significant accounting estimates

- There were no issues noted with management's identification of accounting estimates.
 - There were no issues noted with management's process for making accounting estimates.
 - There were no indicators of possible management bias.
 - There were no significant factors affecting the City's asset and liability carrying values.
-



Financial statement presentation and disclosure

- There were no issues noted with the judgments made, in formulating particularly sensitive financial statement disclosures.
 - There were no issues noted with the overall neutrality, consistency, and clarity of the disclosures in the financial statements.
 - There were no significant potential effects on the financial statements of significant risks, exposures and uncertainties.
 - As requested by the Ministry of Municipal Affairs and Housing, the supplementary information contained within the financial statements includes an unaudited schedule for the COVID-19 Safe Restart Grant received by the City in 2020. The schedule shows the amount of funding received, the eligible costs incurred, and the remaining grant balance at December 31, 2020.
-

Control and other observations

In accordance with professional standards, we are required to communicate to the Committee significant deficiencies in internal control over financial reporting (“ICFR”) that we identified during our audit.

The purpose of our audit is to express an opinion on the financial statements. Our audit included consideration of ICFR 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 ICFR.

The matters being reported are limited to those deficiencies that we have identified during our audit and that we have concluded are of sufficient importance to merit being reported to the Committee and to meet professional standards.

We did not note any significant deficiencies in internal controls.

Appendices

Appendix 1: Required communications

Appendix 2: Management representation letter



Appendix 1: Required communications

Engagement letter

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter provided to management.

Draft auditors' report

The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.

Independence

In accordance with professional standards, we have confirmed our independence.

Management representation letter

In accordance with professional standards, a copy of the management representation letter is included in Appendix 2.

Audit findings report

Represented by this report.

Appendix 2: Management representation letter

MANAGEMENT REPRESENTATION LETTER

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

May 10, 2021

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements of the Corporation of the City of White Rock (the "City") as at and for the period ended December 31, 2020.

General:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Responsibilities:

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated November 30, 2020, including for:
 - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
 - b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements ("relevant information"), such as all financial records and documentation and other matters, including:
 - (i) the names of all related parties and information regarding all relationships and transactions with related parties; and
 - (ii) the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of Council and committees of Council that may affect the financial statements. All significant actions are included in such summaries.
 - c) providing you with unrestricted access to such relevant information.
 - d) providing you with complete responses to all enquiries made by you during the engagement.
 - e) providing you with additional information that you may request from us for the purpose of the engagement.

- f) providing you with unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence.
- g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
- h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.
- i) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that we, and others within the entity, did not intervene in the work the internal auditors performed for you.

Internal control over financial reporting:

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

Fraud & non-compliance with laws and regulations:

- 3) We have disclosed to you:
 - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 - b) all information in relation to fraud or suspected fraud that we are aware of that involves:
 - management;
 - employees who have significant roles in internal control over financial reporting; or
 - otherswhere such fraud or suspected fraud could have a material effect on the financial statements.
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.
 - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
 - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Subsequent events:

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

Related parties:

- 5) We have disclosed to you the identity of the City's related parties.
- 6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
- 7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Estimates:

- 8) The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

Going concern:

- 9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.
- 10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the City's ability to continue as a going concern.

Misstatements

- 11) The effect of the presentation and disclosure misstatement described in **Attachment II** is immaterial to the financial statements as a whole.

Other information

- 12) We confirm that the final version of 2020 Annual Report will be provided to you when available, and prior to issuance by the Entity, to enable you to complete your audit procedures in accordance with professional standards.

Non-SEC registrants or non-reporting issuers:

- 13) We confirm that the City is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002).

- 14) We also confirm that the financial statements of the City will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Yours very truly,

Guillermo Ferrero, Chief Administrative Officer

Colleen Ponzini, Director, Financial Services

Shannon Johnston, Manager, Budgets & Accounting

cc:
Council

Attachment I – Definitions

Materiality

Certain representations in this letter are described as being limited to matters that are material.

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances, and are affected by perception of the needs of, or the characteristics of, the users of the financial statements and, the size or nature of a misstatement, or a combination of both while also considering the entity's own circumstances.

Information is obscured if it is communicated in a way that would have a similar effect for users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

- a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
- c) dissimilar items, transactions or other events are inappropriately aggregated;
- d) similar items, transactions or other events are inappropriately disaggregated; and
- e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Fraud & error

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Attachment II – Summary of Audit Misstatements Schedule(s)

Summary of Presentation and Disclosure Misstatements Year ended December 31, 2020

1. *Amended Budget*

Public Sector Accounting Standards requires the statement of operations and the statement of changes in net financial assets present a comparison of the results for the accounting period with those originally planned. Management presented the amended budget as the basis for this comparison. The original annual budget has been included in the notes to the financial statements, which provided information related to the difference between the original and amended budget. The presentation difference is not considered material to the financial statements given that the original annual budget information is provided in the notes to the financial statements.

D R A F T



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

