



# The Corporation of the City of White Rock

## Audit Planning Report

for the year ended December 31, 2021

*KPMG LLP*

Prepared on December 6, 2021 for presentation on  
December 14, 2021

[kpmg.ca/audit](http://kpmg.ca/audit)

# Table of contents

|                                                 |    |
|-------------------------------------------------|----|
| Executive summary                               | 2  |
| Materiality                                     | 3  |
| Areas of focus for financial reporting          | 4  |
| Audit risks                                     | 7  |
| Audit quality: How do we deliver audit quality? | 8  |
| Key deliverables and milestones                 | 9  |
| Appendices                                      | 10 |

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## Our refreshed Values

### What we believe



Integrity

We do what is right.



Excellence

We never stop learning  
and improving.



Courage

We think and act boldly.



Together

We respect each other  
and draw strength from  
our differences.



For Better

We do what matters.

# Executive summary

## Areas of focus for financial reporting

Our audit of The Corporation of the City of White Rock (the “City”) is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- Financial reporting implications of COVID-19;
- Tangible capital assets;
- Revenue recognition and deferred revenue;
- Expenses, including payroll;
- Valuation of post-employment benefits;
- Contingencies; and
- Presumed risk of management override of controls.

See pages 4 to 7.

## Effective communication

We are committed to transparent and thorough reporting of issues to management and the Finance and Audit Committee (the “Committee”). This is achieved through formal and informal meetings and communications throughout the year. If you have any comments you would like to bring to our attention, please contact Brandon Ma.

See Appendix 1.

## Materiality

Materiality has been determined based on budgeted total expenses. We have determined materiality to be \$1,500,000 (2020 - \$1,500,000).

See page 3.

## Quality control and independence

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

See page 8.

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

# Materiality

Materiality is used to identify risks of material misstatements, develop an appropriate audit response to such risks, and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality. Professional standards require us to re-assess materiality at the completion of our audit based on period-end results or new information in order to confirm whether the amount determined for planning purposes remains appropriate.

| Materiality determination                   | Comments                                                                                                                                                                                                                                                                                                                                                          | Amount       |
|---------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| <b>Materiality</b>                          | Established by considering various metrics that are relevant to the users of the financial statements and 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.<br>The corresponding amount for the prior year's audit was \$1,500,000. | \$1,500,000  |
| <b>Benchmark</b>                            | Based on budgeted expenses for the year ending December 31, 2021.<br>This benchmark is consistent with the prior year.                                                                                                                                                                                                                                            | \$50,605,000 |
| <b>% of Benchmark</b>                       | The prescribed range is between 0.5% and 3.0% of the benchmark.<br>The corresponding percentage for the prior year's audit was 3%.                                                                                                                                                                                                                                | 3%           |
| <b>Audit misstatement posting threshold</b> | Threshold used to accumulate misstatements identified during the audit.<br>The corresponding amount for the prior year's audit was \$75,000.                                                                                                                                                                                                                      | \$75,000     |

## We will report to the Committee:



Corrected audit misstatements



Uncorrected audit misstatements

# Areas of focus for financial reporting

| Areas of focus                                      | Why are we focusing here?                                                                                                                                                                                                         | Our audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial reporting implications of COVID-19</b> | The COVID-19 pandemic continues to impact the City's operations. Management continues to closely monitor the financial reporting implications of COVID-19 to ensure they are appropriately reflected in the financial statements. | <ul style="list-style-type: none"> <li>– Continue to discuss with management the short-term and long-term impacts of COVID-19 on the City to better understand the fluctuations in financial results relative to prior year and those expected in future years.</li> <li>– Perform a trend analytical over operating expenses and revenues to understand the fluctuations relative to the prior year. Where significant variances are noted, review supporting documentation to corroborate the balances recorded in the financial statements.</li> <li>– Review the COVID-19 note disclosure in the financial statements to ensure it continues to appropriately describe the impact of the pandemic on the City's operations.</li> </ul>                                                                                                                                                                         |
| <b>Tangible Capital Assets</b>                      | Tangible capital assets represent a significant portion of assets of the City. The assets owned by the City include land, buildings, roads, equipment, sewer and water system infrastructure, and may require estimation          | <ul style="list-style-type: none"> <li>– Update our understanding of the process activities and controls over tangible capital assets.</li> <li>– Detailed testing of asset additions, including developer contributions, and inspection of supporting documentation to ensure it is appropriate to capitalize the costs.</li> <li>– Detailed testing of dispositions including inspection of supporting documentation and assessing if the gain or loss on disposition has been recorded appropriately.</li> <li>– Review the reasonableness of estimated useful lives and amortization recognized. Review management's assessment of impairment, if any, to tangible capital assets.</li> <li>– Assess whether the facts related to any impairment issues identified support a write down to the asset.</li> <li>– Review agreements for contractual commitments and related disclosure requirements.</li> </ul> |

# Areas of focus for financial reporting (continued)

| Areas of focus                                  | Why are we focusing here?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Our audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Revenue recognition and deferred revenue</b> | <p>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.</p> <p>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.</p> | <ul style="list-style-type: none"> <li>– Update our understanding of the process activities over revenues and contributions received, amounts spent as well as deferral of unspent amounts.</li> <li>– Evaluate the design and implementation of controls over contributions received and expenditures incurred, as well as management’s review of related balances.</li> <li>– Review the accounting for all new agreements to determine whether stipulations or restrictions exist and how the funds should be recognized and/or deferred.</li> <li>– 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.</li> <li>– 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.</li> <li>– For Community Amenity Charges, perform substantive test of detail work over related revenue recognized and review related agreements to ensure appropriateness of amounts recognized.</li> </ul> |
| <b>Expenses, including payroll</b>              | <p>The City’s expenses are closely monitored against Council approved budgets</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <ul style="list-style-type: none"> <li>– Update our understanding of the process activities and controls for expenses, including payroll.</li> <li>– Analyze the change in expenses relative to the prior year based on changes in operations.</li> <li>– Analyze the change in payroll expense relative to the prior year based on changes in head count and pay rates. Perform testing over head counts and pay rates changes.</li> <li>– Perform a search for unrecorded liabilities to ensure expenses are recorded in the appropriate fiscal year.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |



# Areas of focus for financial reporting (continued)

| Areas of focus                                 | Why are we focusing here?                                                                                                                                                                                                                          | Our audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Valuation of Post – Employment Benefits</b> | The City provides certain post-employment benefits, compensated absences, and termination benefits to employees. Due to the complexities of the estimate, management has engaged an actuarial expert to assist in the development of the estimate. | <ul style="list-style-type: none"> <li>– Obtain the valuation report as prepared by the City’s actuarial expert and reviewing select assumptions used for reasonableness.</li> <li>– Obtaining data inputs provided by the City to the actuary for use in determining the estimate and testing select items to determine accuracy of the data provided.</li> <li>– Perform an analytical review over these amounts.</li> <li>– Reviewing note disclosure in the financial statements to determine if required disclosures under the accounting standards are appropriately included.</li> </ul> |
| <b>Contingencies</b>                           | The City is required to make provisions for contingencies. This would include potential and known litigations and claims that are likely to result in liabilities for the City.                                                                    | <ul style="list-style-type: none"> <li>– Make inquiries with management with respect to any contingencies and legal claims up to the audit report date.</li> <li>– Obtain legal confirmations as appropriate.</li> <li>– Assess appropriateness of financial statement treatment including related disclosures.</li> </ul>                                                                                                                                                                                                                                                                      |

# Audit risks

## Significant risk - professional requirements

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

## Why is it significant?

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

## Our audit approach

As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:

- Testing of journal entries and other adjustments,
- Performing a retrospective review of estimates, and
- Evaluating the business rationale of significant unusual transactions.

## Inquiries required by professional standards

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

- Are you aware of, or have you identified any instances of actual, suspected, possible, or alleged non-compliance of laws and regulations or fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?
- What are your views about fraud risks in the City?
- How do you exercise effective oversight of management's processes for identifying and responding to the risk of fraud in the City and internal controls that management has established to mitigate these fraud risks?
- Has the City entered into any significant unusual transactions?



# Audit quality: How do we deliver audit quality?

Transparency report



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

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

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

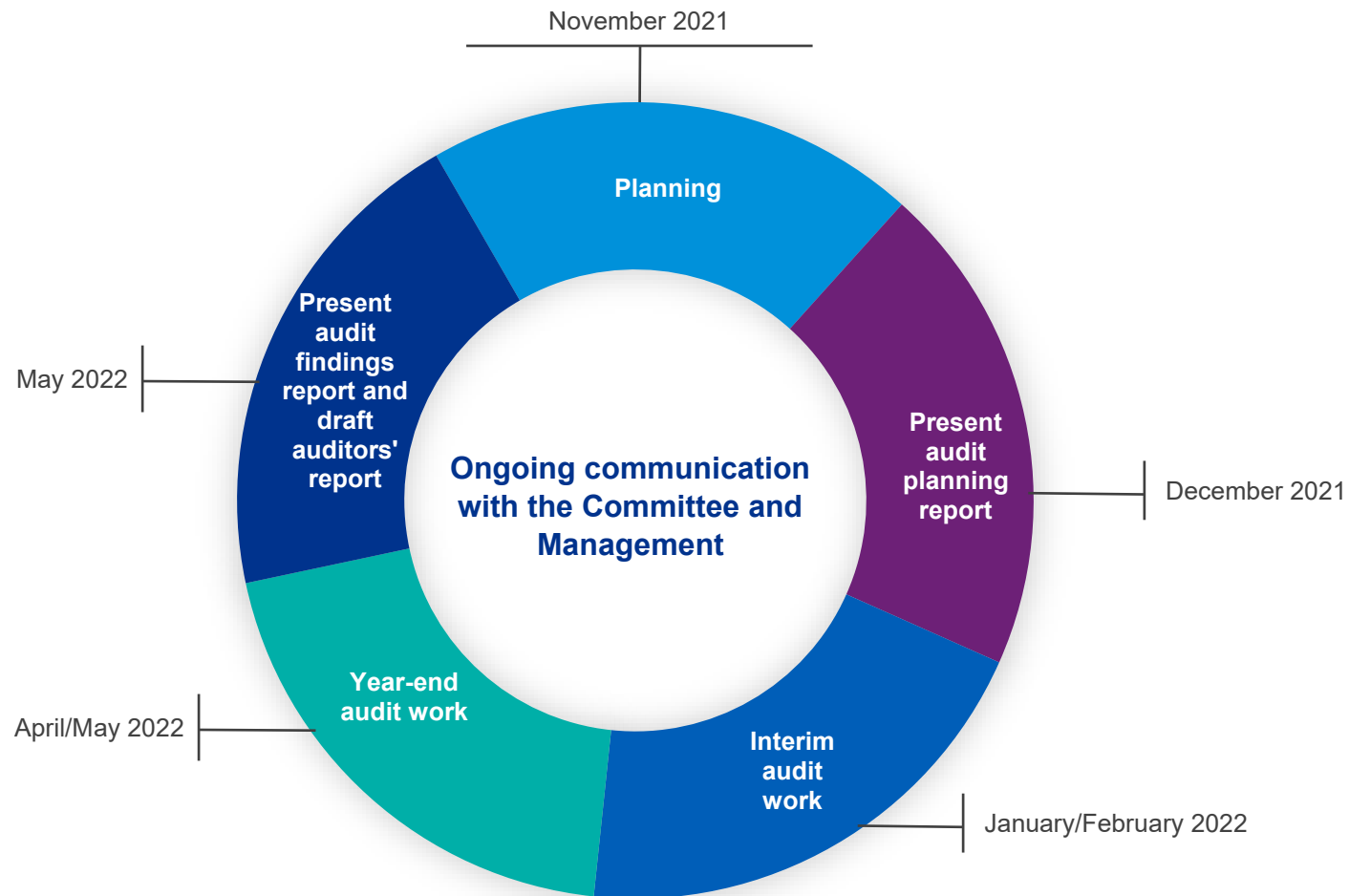
We define **‘audit quality’** as being the outcome when:

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



**Doing the right thing. Always.**

# Key deliverables and milestones



# Appendices

## Appendix 1: Required communications



# Appendix 1: Required communications

|                                                                                                                               |                                                                                                                                                                                                          |
|-------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Auditors' report</b>                                                                                                       | <b>Engagement letter</b>                                                                                                                                                                                 |
| A copy of our draft auditors' report setting out the conclusion of our audit will be provided at the completion of the audit. | The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter provided to management.                      |
| <b>Audit findings report</b>                                                                                                  | <b>Management representation letter</b>                                                                                                                                                                  |
| At the completion of the audit, we will provide our findings report to the Committee.                                         | We will obtain from management certain representations at the completion of the audit. In accordance with professional standards, a copy of the representation letter will be provided to the Committee. |
| <b>Independence</b>                                                                                                           | <b>Internal control deficiencies</b>                                                                                                                                                                     |
| At the completion of our audit, we will re-confirm our independence to the Committee.                                         | Control deficiencies identified during the audit will be communicated to management and the Committee.                                                                                                   |



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