



The Corporation of the City of White Rock

**Audit Findings Report for the year
ended December 31, 2022**

KPMG LLP

Prepared on June 2, 2023 for presentation
on June 12, 2023



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Highlights

Purpose of this report

The purpose of this report is to assist Mayor and Council 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, 2022. This audit findings report builds on the audit plan presented on December 5, 2022 to the City’s Finance & Audit Committee.

Status of 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 amongst others:

- Completing certain audit documentation and review processes;
- Completing our discussions with Mayor and Council;
- Obtaining the signed management representation letter;
- Obtaining evidence of the Council’s acceptance of the financial statements; and,
- Completing subsequent event review procedures.

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

Significant changes to our audit plan

There were no significant changes to our audit plan which was originally communicated to you in the audit planning report.

Areas of audit focus

As part of our audit, we identified areas of audit focus, which include:

- Tangible capital assets
- Revenue and deferred revenue (including development cost charges)
- Valuation of post-employment benefits
- Expenses, including payroll
- Contingencies

Significant risks

We have not identified significant risks of material misstatement for the audit, except for the presumed risk of fraud resulting from management override of controls, which is required by professional standards.

In accordance with professional standards, the newly revised risk assessment auditing standard (CAS 315) was implemented in the audit.



Highlights (continued)

Audit misstatements

There were no corrected or uncorrected misstatements noted in our audit.

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.

Control observations



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

We have identified an other observation that we believe will be of interest to management and Mayor and Council.

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, 2022, up to the date of this report.

Current developments

There have been no updates to the current developments and thought leadership information provided in our audit planning report.



Audit findings – Significant risk



Management override of controls

RISK OF



FRAUD

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.

Audit approach

As this presumed risk of material misstatement due to fraud 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.
- Evaluating the business rationale of significant unusual transactions.

Significant findings

There were no significant findings from our testing.



Audit findings – Areas of audit focus

Area of audit focus	Estimate?
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Tangible capital assets (“TCA”)

No

Our response

- We updated our understanding of the process activities and controls over tangible capital assets.
- We performed detailed testing of asset additions, including developer contributions, and inspection of supporting documentation to ensure it is appropriate to capitalize the costs.
- We tested dispositions including inspection of supporting documentation and assessed if the gain or loss on disposition has been recorded appropriately.
- We reviewed the reasonableness of estimated useful lives and amortization recognized. We reviewed management’s assessment of impairment, if any, to tangible capital assets.
- We assessed whether the facts related to any impairment issues identified support a write down to the asset.
- We reviewed agreements for contractual commitments and related disclosure requirements.

Significant findings

There were no significant findings from our testing.



Audit findings – Areas of audit focus (continued)

Area of audit focus	Estimate?
Revenue and deferred revenue (including development cost charges)	No

Our response

- We updated our understanding of the process activities over revenues and deferred revenue.
- We performed a walkthrough including activities and controls over revenues and deferred revenue.
- We reviewed the accounting for significant new agreements to determine whether stipulations or restrictions exist and how the funds should be recognized and/or deferred.
- We performed substantive procedures over certain revenue streams, including vouching and review of supporting documentation related to revenues incurred, to ensure revenues are appropriately recognized.
- We performed substantive analytical procedures over property tax revenue and utility revenues.
- We analyzed the change in revenues relative to the prior year based on changes in operations.

Significant findings

There were no significant findings from our testing.



Audit findings – Areas of audit focus (continued)

Area of audit focus	Estimate?
Valuation of post-employment benefits	Yes

Our response

- We obtained the valuation report as prepared by the City's actuarial expert and review select assumptions used for reasonableness.
- We obtained 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.
- We reviewed note disclosure in the financial statements to determine if required disclosures under the accounting standards are appropriately included.

Significant findings

There were no significant findings from our testing.

Audit findings – Areas of audit focus (continued)

Area of audit focus	Estimate?
Expenses, including payroll	No

Our response

- We updated our understanding of process activities for expenses, including payroll.
- We performed a walkthrough including activities and controls over purchase and payroll.
- We analyzed the change in expenses relative to the prior year based on changes in operations.
- We performed substantive procedures, including vouching and review of supporting documentation related to expenses incurred, to ensure expenses are appropriately recognized.
- We analyzed the change in payroll expense relative to the prior year based on changes in head count and pay rates, verifying key inputs to supporting documentation.
- We performed a search for unrecorded liabilities to ensure expenses are recorded in the appropriate fiscal year.

Significant findings

There were no significant findings from our testing.



Audit findings - Areas of audit focus (continued)

Area of audit focus	Estimate?
Contingencies	No

Our response

- We made inquiries with management with respect to any contingencies, commitments, and legal claims up to the audit report date.
- We obtained legal confirmations as appropriate.
- We assessed appropriateness of financial statement treatment including related disclosures.

Significant findings

There were no significant findings from our testing.



Significant accounting policies and practices



Significant accounting policies

- There have been no initial selections of, or changes to, 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.



Significant disclosures and financial statement presentation

- 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.



Control observations

Consideration of internal control over financial reporting (“ICFR”)



In planning and performing our audit, we considered ICFR relevant to the City’s preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on ICFR.

Our understanding of internal control over financial reporting was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies. The matters being reported are limited to those deficiencies that we have identified during the audit that we have concluded are of sufficient importance to merit being reported to those charged with governance.

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors. Had we performed more extensive procedures on internal control over financial reporting, we might have identified more significant deficiencies to be reported or concluded that some of the reported significant deficiencies need not, in fact, have been reported.

A deficiency in internal control over financial reporting



A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Significant deficiencies in internal control over financial reporting



A significant deficiency in internal control over financial reporting is a deficiency, or combination of deficiencies, in internal control that, in the auditor’s professional judgment, is of sufficient importance to merit the attention of those charged with governance.



Control observations (continued)

Significant deficiencies in ICFR

We did not note any significant deficiencies in ICFR.

Other observation

Description	Observation	Recommendation	Management's response
DCC Bylaw	During the audit, we noted that the DCC bylaw was last revised and approved in 2016. There have been changes in the economic environment which impact capital costs since 2016 and in particular over the past 12 to 24 months, and as a result the rates in the bylaw may want to be re-evaluated based on current circumstances.	We recommend that the City consider a periodic cadence for reviewing and revising the DCC bylaw so that rates reflect the current economic environment and circumstances.	Management concurs with the recommendation.



Appendices

1

**Required
communications**

2

**Management
representation
letter**



Appendix 1: Required communications

Draft auditor's report

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

Management representation letter

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

Independence

In accordance with professional standards, we have confirmed our independence on page 5.



Appendix 2: Management representation letter

KPMG LLP
777 Dunsmuir Street
Vancouver, BC
V7Y 1K3

June 12, 2023

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, 2022.

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 financial records, documentation and other matters, including:
 - the names of all related parties and information regarding all relationships and transactions with related parties;
 - 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.

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.

Other information

- 11) We confirm that the final version of 2022 Annual Report will be provided to you when available, and prior to issuance by the City, to enable you to complete your audit procedures in accordance with professional standards.

Non-SEC registrants or non-reporting issuers:

- 12) 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).
- 13) We also confirm that the financial statements of the City will not be included in the group 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

Candice Gartry, Director, Financial Services

cc: Council

Attachment I – Definitions

Materiality

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, 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 the size or nature of a misstatement, or a combination of both.

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.



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