Corporation of the City of
NEW WESTMINSTER

Attachment #*1*

Audit Planning Report for the year ended December 31, 2023

Corporation of the City of New Westminster

Audit Planning Report
for the year ended December 31, 2023

KPMG LLP

Report prepared as of January 12, 2024,
for presentation on January 22, 2024

kpmg.ca/audit

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The purpose of this report is to assist you, as a member of Council, in your review of the plan for our audit of the financial statements. This report is intended solely for the information and use of Management and Council of the City 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 Council has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Digital use information

This Audit Planning Report is also available as a “hyper-linked” PDF document.

If you are reading in electronic form (e.g. In “Adobe Reader” or “Board Books”), clicking on the home symbol on the top right corner will bring you back to this slide.

Click on any item in the table of contents to navigate to that section.

Audit highlights

No matters to report

Matters to report – see link for details

Scope

Our audit of the financial statements of The Corporation of the City of New Westminster ("the City") as of and for the year ending December 31, 2023 will be performed in accordance with Canadian generally accepted auditing standards.

Audit strategy

Materiality $6,500,000

Involvement of others

Updates to our prior year audit plan

Risk assessment

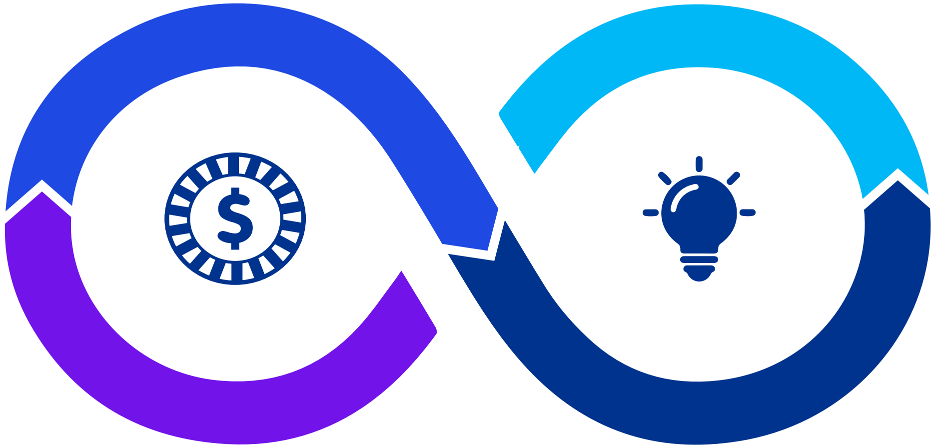
Risk of management override of controls

Other Significant risks

Other risks of material misstatement

- Asset retirement obligations
- Deferred Development cost charges
- Tangible capital assets
- Expenses including payroll

Materiality



We ***initially determine materiality*** at a level at which we consider that misstatements could reasonably be expected to influence the economic decisions of users. Determining materiality is a matter of ***professional judgement***, considering both quantitative and qualitative factors, and is affected by our perception of the common financial information needs of users of the financial statements as a group. We do not consider the possible effect of misstatements on specific individual users, whose needs may vary widely.

We ***reassess materiality*** throughout the audit and revise materiality if we become aware of information that would have caused us to determine a different materiality level initially.

Plan and perform the audit

We ***initially determine materiality*** to provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures.

We design our procedures to detect misstatements at a level less than materiality in individual accounts and disclosures, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Evaluate the effect of misstatements

We also ***use materiality*** to evaluate the effect of:

- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.

Initial materiality

Materiality

$6,500,000

(2022: $6,000,000)

Budgeted total expenses

$235 million

(2022: $216 million budgeted, $223 million actual)

No change in benchmark compared to prior year

% of Benchmark

2.8%

(2022: 2.8%)

The prescribed range is between 0.5% and 3.0% of the benchmark

Updates to our prior year audit plan

New significant risks

Significant risks

There were no new significant risks identified for the year.

Other significant changes

Newly effective accounting standards

New accounting standards effective for the year ending December 31, 2023 include:

- PS 3280 Asset Retirement Obligations
- PS 3450 Financial Instruments
- PS 3041 Portfolio Investments
- PS 2601 Foreign Currency Translation
- PS 1201 Financial Statement Presentation

Newly effective accounting standards

Newly effective auditing standards

There are 3 new auditing standards effective for year ending December 31, 2023 related to quality management.

Newly effective auditing standards

Risk assessment summary

Our planning begins with an assessment of risks of material misstatement in your financial statements.

We draw upon our understanding of the City and its environment (e.g. the sector, the wider economic environment in which the City operates, etc.), our understanding of the City's components of its system of internal control, including our business process understanding.

		Risk of fraud	Risk of error	Risk rating
●	Management override of controls	✓		Significant
●	Asset retirement obligations		✓	Elevated
●	Deferred Development cost charges		✓	Base
●	Tangible capital assets		✓	Base
●	Expenses including payroll		✓	Base

● SIGNIFICANT RISK ● PRESUMED RISK OF MATERIAL MISSTATEMENT ● OTHER RISK OF MATERIAL MISTATEMENT

Significant risks

Management Override of Controls (non-rebuttable significant risk of material misstatement)

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.

Our planned response

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.

Fraud inquiries of those charged with governance

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?

Other risks of material misstatement

Areas	Level of risk due to error	Our planned response
Asset retirement obligations (“ARO”) PS 3280 Asset Retirement Obligations (“PS 3280”) is a new accounting standard effective for the City’s 2023 fiscal year. The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with the retirement of certain controlled tangible capital assets (“TCA”). The standard requires the City to record a liability related to future costs of any legal obligations incurred upon retirement of controlled TCA. The amount of the initial liability will be added to the historical cost of any in-service TCA and amortized over the asset’s useful life.		• Obtain an understanding of management’s process for implementing PS 3280, including how in-scope TCA were identified, sources of information used, and significant measurement data, assumptions and decisions. • Ensure the retirement obligations accounting policy set by management is in accordance with PS 3280. • Obtain a list of TCA that reconciles to the general ledger and review the listing to ensure management’s identification of TCA with potential in-scope retirement obligations is accurate and complete. • Review relevant legal contracts, non-financial information and other relevant documentation (e.g. lease agreements, health and safety asbestos inventories, etc.) to ensure management’s identification of in-scope assets is complete. • Review reports and related supporting documentation for the retirement obligations associated with buildings. Assess whether reliance can be placed on any external consultants reports or other support as audit evidence. • Select a sample of assets with in-scope retirement obligations. Agree inputs into the calculation of the liability to supporting documentation and assess whether assumptions made by management are reasonable. • Review the financial statement presentation and note disclosures to ensure it is consistent with PS 3280.

Other risks of material misstatement

Areas	Level of risk due to error	Our planned response
Deferred Development cost charges (“DCC”) Deferred development cost charges (“DCC”) are deferred upon receipt and are restricted for the purposes of capital projects. As these amounts are received for specific purposes, they are recorded as a liability and the revenue is matched against the related expenses when incurred.	 Base	• Vouch building permits issued during the year including agreeing the permit to the DCC schedule to determine if the DCC balance has been calculated using Council’s approved rates. • Vouch DCC expenditures to determine if the expenditure amount was accurately recorded and appropriately classified as a DCC expense. • Perform inquiries with management regarding agreements that are non-standard and involve forgiveness or prepayment of DCC’s, and inspecting the underlying agreements, if any, to assess the accounting treatment.
Tangible capital assets (“TCA”) Tangible capital assets (“TCA”) represent a significant portion of assets and capital spending represents a significant portion of annual outlays for the City.	 Base	• Update our understanding of the process activities and controls related to TCA • Inspect the TCA continuity schedule and verify the mathematical accuracy. • Vouch TCA additions, including inspecting supporting documentation to determine if additions are capital in nature and to agree accuracy of amounts recorded. • Vouch TCA dispositions including inspecting supporting documentation and assessing if the gain or loss on disposition has been recorded appropriately. • Review the reasonableness of estimated useful lives and amortization recorded.

Other risks of material misstatement

Areas	Level of risk due to error	Our planned response
Expenses, including Payroll The City's expenses are closely monitored against Council approved budgets.	 Base	• Update our understanding of the process activities and controls for expenses, including payroll. • Test the operating effectiveness of relevant controls over expenses, including payroll. • Analyze the change in expenses relative to the prior year based on changes in operations. • Perform substantive procedures, including vouching and review of supporting documentation related to expenses incurred, to ensure expenses are appropriately recognized. • Perform substantive analytical testing over 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.

Key milestones and deliverables

December 2023

Planning & Risk Assessment

- Debrief prior year with management
- Kick-off with management
- Planning and initial risk assessment procedures, including:
  - Identification and assessment of risks of misstatements and planned audit response for certain processes
- Obtain and update an understanding of the City and its environment

January 2024

Risk assessment & Interim work

- Evaluate the City's components of internal control, other than the control activities component
- Inquire of Council, management and others within the City about risks of material misstatement
- Complete interim data extraction and processing activities
- Complete initial risk assessment
- Communicate audit plan
- Identify IT applications and environments
- Provide update on audit progress

January 2024

Interim work

- Perform process walkthroughs for remaining business processes
- Identify process risk points for remaining business processes
- Evaluate Design & Implementation of controls for remaining business processes (control activity component)
- Perform interim substantive audit procedures
- Perform site visits

March - May 2024

Final Fieldwork & Reporting

- Complete year-end data extraction and processing activities
- Perform remaining substantive audit procedures
- Evaluate results of audit procedures, including control deficiencies and audit misstatements identified
- Review financial statement disclosures
- Closing meeting with management
- Present audit results to Council and perform required communications
- Issue audit report on financial statements

Appendices

1. Required communications
2. Audit quality
3. New accounting standards
4. New auditing standards
5. Thought leadership and insights
6. Audit and assurance insights

Appendix 1: Required communications

Auditor’s report	Engagement letter
A copy of our draft auditor’s 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.
Audit findings report	**Management representation letter**
At the completion of the audit, we will provide our findings report to Council.	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 Council.
Independence	**Internal control deficiencies**
We are independent and have a robust and consistent system of quality control. We provide complete transparency on all services and follow Council’s approved protocols. At the completion of our audit, we will re-confirm our independence to Council.	Control deficiencies identified during the audit will be communicated to management and Council.

Appendix 2: Audit quality: How do we deliver audit quality?

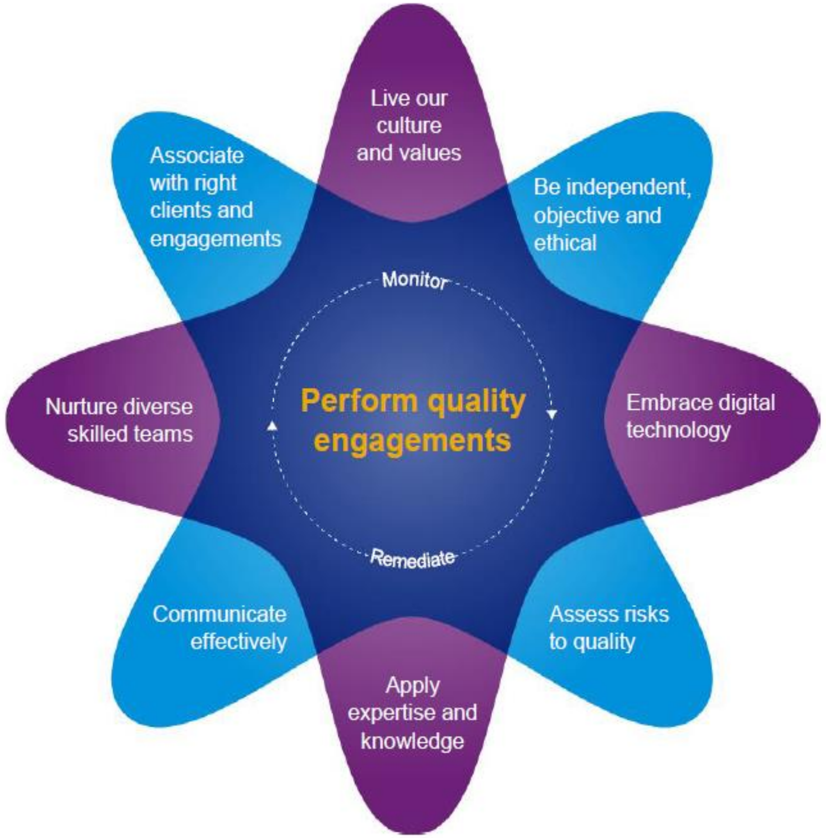
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contributes to its delivery.

The drivers outlined in the framework are the ten components of the KPMG System of Quality Management (SoQM). Aligned with International Standard on Quality Management (ISQM 1)/Canadian Standard on Quality Management (CSQM 1), our SoQM components also meet the requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA) and the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting in Canada, which apply to professional services firms that perform audits of financial statements.

KPMG 2022 Audit Quality and Transparency Report

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 management;** 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.

Appendix 3: Changes in accounting standards

PS 3280 Asset Retirement Obligations ("PS 3280") is effective for the fiscal years beginning on or after April 1, 2022. This standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets by public sector entities. This significant new accounting standard has implications that have the potential to go beyond financial reporting.

Financial reporting implications

A liability for asset retirement costs will be recorded with a corresponding increase in the cost of tangible capital assets in productive use, resulting in a decrease (increase) to the net financial assets (net debt) reported in the Statement of Financial Position.

Asset retirement obligations associated with tangible capital assets that are not recognized or no longer in productive use are expensed.

Additional non-cash expenses for the amortization of tangible capital assets and accretion will be recognized annually.

The total cost of legally required retirement activities will be recognized earlier in a tangible capital asset's life. There is no change to the total cost recorded over an asset's life.

A rigorous process needs to be established to support updates to the ARO measurement on an annual basis post-initial implementation.

Asset management implications

The asset retirement date used to determine the asset retirement liability needs to be consistent with the useful life of the related tangible capital asset. As a result, public sector entities need to assess whether the useful lives of tangible capital assets continue to be accurate and consistent with asset management plans.

Many public sector entities are using the implementation of PS 3280 as an opportunity to develop or refine their asset management plans.

Funding implications

PS 3280 does not provide guidance on how the asset retirement liability should be funded. Many public sector entities currently fund retirement costs as they are incurred at the end of the asset's life. Public sector entities will need to assess whether this practice remains appropriate or if funding will be obtained over the life of the asset.

Budget implications

In addition to budgeting for costs associated with the initial implementation of PS 3280, public sector entities will need to consider if the non-cash accretion expense and additional amortization expense will be included in the annual budget.

Public sector entities operating under balanced budget legislation or similar guidelines will need to obtain guidance from the provincial government or governance bodies to determine the impact of PS 3280 on current requirements.

Capital planning implications

PS 3280 requires legal obligations associated with the retirement of tangible capital assets to be recorded when the assets are acquired, constructed, or developed. As a result, the cost of legally required retirement activities will need to be considered at the inception of a capital project to determine the financial viability and impact of the project.

Appendix 3: Changes in accounting standards (continued)

PS 3280 Asset Retirement Obligations ("PS 3280") is effective for the fiscal years beginning on or after April 1, 2022. This standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets by public sector entities. The following checklist is intended to provide you with reminders for key activities in each phase of your PS 3280 implementation project. The items noted are not a complete list of factors influencing the successful adoption of PS 3280, nor is it intended to provide any type of assurance.

Project planning

- Project team is cross-functional and includes Finance and non-Finance personnel.
- Sufficient personnel resources are available for the implementation project.
- Where required, external experts have been engaged.
- The project plan identifies who is responsible for each project task.
- Project timelines are reasonable.
- Auditor involvement has been scheduled at each significant project milestone.
- Asset retirement obligations policy has been drafted.
- Funding is available for PS 3280 implementation costs.
- Recurring project updates are provided to Council or other governance body to engage them in the implementation process.

Scoping

- The tangible capital assets listing reconciles to the audited financial statements.
- Agreements (e.g. leases, statutory rights of way, etc.) have been reviewed for potential legal obligations.
- Productive and non-productive assets have been included in the scoping analysis.
- Assets with similar characteristics and risks have been grouped together in the scoping analysis.
- All relevant legal acts, regulations, guidelines, etc. have been identified.
- Relevant internal stakeholders have been interviewed to obtain information about potential retirement obligations.

Measurement

- Cost information is relevant and reliable.
- Only costs directly attributable to legally required retirement activities have been included in the liability.
- If applicable, the discount rate is consistent with the risks and timelines inherent in the cash flows.
- If discounting is applied, it is based on reliable information to inform the timing of future cash flows.
- Asset retirement obligations have been linked to specific tangible capital assets.
- The useful life of the tangible capital asset remain appropriate and are consistent with estimated asset retirement date.
- The transition method selected is appropriate based on the measurement information available.
- Calculations are mathematically accurate.

Financial reporting

- Financial statements have been mocked up to include asset retirement obligations.
- Note disclosures, including significant accounting policies, have been drafted.
- Documentation prepared during the project has been reviewed to ensure it is accurate and complete.
- Plans have been implemented for the annual post-implementation review and update of the asset retirement obligation liability.

Appendix 3: Changes in accounting standards (continued)

Standard	Summary and implications
Financial instruments and Foreign Currency Translation	• New accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* are effective for fiscal years commencing on or after April 1, 2022. • Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. • Hedge accounting is not permitted. • A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations.
Revenue	• The new standard PS 3400 *Revenue* is effective for fiscal years beginning on or after April 1, 2023. • The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement. • The standard notes that in the case of revenue arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. • The standard notes that unilateral revenue arises 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.

Appendix 3: Changes in accounting standards (continued)

Standard	Summary and implications
Public Private Partnerships (“P3”)	• The new standard PS 3160 *Public private partnerships* is effective for fiscal years beginning on or after April 1, 2023. • The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. • The standard notes 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 public private partnership ends. • The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. • The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project. • The standard can be applied retroactively or prospectively.
Purchased Intangibles	• The new Public Sector Guideline 8 *Purchased intangibles* is effective for fiscal years beginning on or after April 1, 2023 with earlier adoption permitted. • The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and Generally Accepted Accounting Principles (GAAP) hierarchy are used to account for purchased intangibles. • Narrow scope amendments were made to PS 1000 *Financial statement concepts* to remove the prohibition to recognize purchased intangibles and to PS 1201 *Financial statement presentation* to remove the requirement to disclose purchased intangibles not recognized. • The guideline can be applied retroactively or prospectively.

Appendix 3: Changes in accounting standards (continued)

Standard	Summary and implications
Employee Future benefits	• The Public Sector Accounting Board has initiated a review of sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. • The intention is to use principles from International Public Sector Accounting Standard 39 *Employee benefits* as a starting point to develop the Canadian standard. • Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, the new standards will be implemented in a multi-release strategy. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. • The proposed section PS 3251 *Employee benefits* will replace the current sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. It will apply to fiscal years beginning on or after April 1, 2026. Early adoption will be permitted and guidance applied retroactively. • This proposed section would result in public sector entities recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations. • The Public Sector Accounting Board is in the process of evaluating comments received from stakeholders on the exposure draft.
Concepts Underlying Financial Performance	• The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 with earlier adoption permitted. • The framework provides the core concepts and objectives underlying Canadian public sector accounting standards. • The ten chapter conceptual framework defines and elaborates on the characteristics of public sector entities and their financial reporting objectives. Additional information is provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts are introduced.

Appendix 4: Newly effective and upcoming changes to auditing standards

For more information on newly effective and upcoming changes to auditing standards - see Current Developments

Effective for periods beginning on or after December 15, 2022

ISA/CAS 220

(Revised) Quality management for an audit of financial statements

ISQM1/CSQM1

Quality management for firms that perform audits or reviews of financial statements or other assurance or related services engagements

ISQM2/CSQM2

Engagement quality reviews

Effective for periods beginning on or after December 15, 2023

ISA 600/CAS 600

Revised special considerations – Audits of group financial statements

ISA: International Standards on Auditing

CAS: Canadian Auditing Standards

IISQM: International Standard on Quality Management

CSQM: Canadian Standard on Quality Management

Appendix 5: Thought leadership and insights

Thought leadership – Environmental, social and governance (“ESG”)

First International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards

The arrival of the first two IFRS Sustainability Disclosure Standards marks a key milestone in sustainability reporting and is a significant step towards creation of a global baseline for stakeholder-focused sustainability reporting that local jurisdictions can build on. **Although the standards are not required to be adopted by the City, the new IFRS sustainability standards provide key insights into what the future of sustainability reporting may look like for the City.**

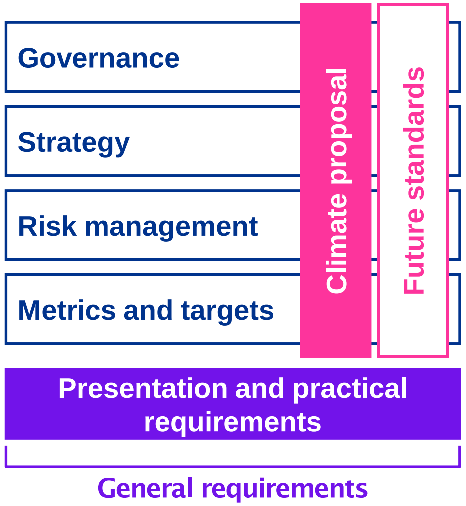
Summary of the recently released standards

The standards build on the four-pillar structure of the **Task Force on Climate-related Financial Disclosures**.

The **general requirements standard** **(IFRS S1)** defines the scope and objectives of reporting and provides core content, presentation and practical requirements.

It requires disclosure of material information on all sustainability-related risks and opportunities – not just on climate.

The **climate standard** **(IFRS S2)** replicates the core content requirements and supplements them with climate-specific reporting requirements.



Visit KPMG’s Sustainability Reporting website for more information, including a comprehensive summary of the new requirements and KPMG’s insights and illustrative examples for the new standards.

Click here to access KPMG’s portal

Appendix 6: Audit and assurance insights

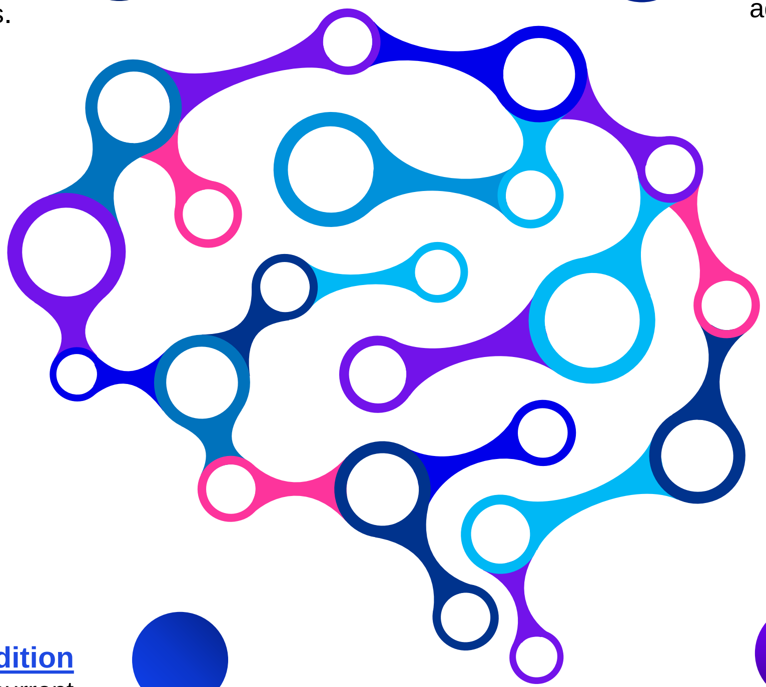
Our latest thinking on the issues that matter most to Audit Committees, board of directors and management.

KPMG Audit & Assurance Insights
Curated research and insights for audit committees and boards.

Board Leadership Centre
Leading insights to help board members maximize boardroom opportunities

Current Developments
Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.

Audit Committee Guide – Canadian Edition
A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada.



Accelerate 2023
The key issues driving the audit committee agenda in 2023.

Momentum
A quarterly newsletter with the latest thought-leadership from KPMG's subject matter leaders across Canada and valuable audit resources for clients.

KPMG Climate Change Financial Reporting Resource Centre
Our climate change resource center provides insights to help you identify the potential financial statement impacts to your business.

IFRS Breaking News
A monthly Canadian newsletter that provides the latest insights on international financial reporting standards and IASB activities.

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