

ON TABLE
City Council Meeting
May 6, 2024
re: Item 3.1



Corporation of the City of New Westminster

**Audit Findings Report
for the year ended December 31, 2023**

KPMG LLP

Dated May 3, 2024, for presentation on May 6, 2024

kpmg.ca/audit



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Digital use information

This Audit Findings 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.



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



Audit highlights



No matters to report



Matters to report – see link for details

Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a member of Council, in your review of the results of our audit of the financial statements of the Corporation of the City of New Westminster (the “City”) as at and for the year ended December 31, 2023. This Audit Findings Report builds on the Audit Plan we presented to Council on January 22, 2024. Our audit has been performed in accordance with Canadian generally accepted auditing standards (CAS).

Status

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:

- Completing audit procedures over asset retirement obligations and revenues;
- Completing certain audit file documentation and completion / review processes
- Completing concurring partner review of draft financial statements.
- Completing our discussions with Council.
- Obtaining signed management representation letter.
- Obtaining evidence of Council’s acceptance of the financial statements.
- Completing subsequent event review procedures.

We will update 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 draft financial statements, will be dated upon the completion of any remaining procedures.

Significant changes



Significant changes since our audit plan

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

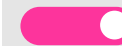
Current developments

We include an appendix with an update on global ESG reporting standards.

Risks and results



Significant risks



Other risks of material misstatement



Going concern matters



Audit highlights



No matters to report



Matters to report – see link for details

Uncorrected misstatements



Uncorrected misstatements

We have not identified any uncorrected audit misstatements based on audit procedures completed as of the date of this report.

Corrected misstatements



Corrected misstatements

We have not identified any corrected audit misstatements based on audit procedures completed as of the date of this report.

Control deficiencies



Significant deficiencies

We have not identified any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting based on audit procedures completed as of the date of this report.

Policies and practices



Significant unusual transactions



Accounting policies and practices



Quality control and 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, 2023 up to the date of this report.



Significant risks and results



Management override of controls

RISK OF



FRAUD

Significant risk

Estimate?

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.

No

Our response

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 significant estimates and evaluating the business rationale of significant unusual transactions.
- Utilizing application software to evaluate the completeness of the journal entry population through a roll-forward of all accounts. We used computer-assisted audit techniques to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing.
- Reviewing the accounting estimates and assessing whether management's estimates are reasonable and not indicative of management bias.

Significant findings

There were no issues noted in our testing.



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.



Asset Retirement Obligations (“ARO”) – new accounting standard

Background

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 City adopted this new accounting standard on a modified retrospective basis. As at December 31, 2023, due to the adoption of the new accounting standard, the City has recognized a liability for ARO of \$12 million. The initial cost was capitalized as part of the carrying amount of the related tangible capital asset for assets that are recognized and in productive use.

Estimate?

Yes – Expenditures required to retire a tangible capital asset

Our response

- We obtained 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.
- We assessed whether the asset retirement obligations accounting policy set by management was in accordance with PS 3280.
- We obtained a list of TCA that reconciles to the general ledger and reviewed the listing to ensure management’s identification of TCA with potential in-scope retirement obligations is accurate and complete.
- We inquired with Management and confirmed that there were no additional legal agreements, such as lease agreements, entered into by the City that contractually obligates the City to an asset retirement obligation other than those already identified.
- We obtained Management’s calculation of the ARO liability and the incremental amortization expense. We verified the mathematical accuracy of the calculations and agreed a sample of inputs to supporting documentation and agreed the reasonableness of significant assumptions and judgments made to measure the liability.
- Management engaged environmental consultants to determine the inputs in the calculation of the liability. We reviewed the consultant reports and related supporting documentation for the asset retirement obligations. We assessed the reasonableness of significant assumptions used by the environmental consultants and also whether reliance can be placed on consultant reports as audit evidence.



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.



Asset Retirement Obligations (“ARO”) – new accounting standard (continued)

Our response

- We reviewed the application of the modified retrospective transitional provisions applied by management for the initial implementation of the accounting standard.
- We reviewed the financial statement presentation and note disclosures to ensure it is consistent with the guidance in PS 3280.
- We discussed with management that the ARO liability will need to be monitored on an annual basis to keep track of any retirement of AROs or changes in rates used in the determination of the liability and make adjustments as necessary.

Our findings

As noted in the *Status* section on page 4, we are completing our audit procedures over asset retirement obligations. No issues have been identified based on audit procedures completed of the date of this report.



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.



Financial instruments – new accounting standard

Background

The new standard PS 3450 *Financial Instruments*, PS 2601 *Foreign currency translation*, PS 1201 *Financial statement presentation* and PS 3041 *Portfolio Investments* are effective for the City's 2023 fiscal year. Equity instruments quoted in an active market and derivatives are required to be measured at fair value. All other financial instruments can be carried at cost/amortized cost or fair value depending on the City's accounting policy choice.

Estimate?

No

Our response

- We reviewed management's documentation of the process applied to analyze the appropriate recognition, measurement, presentation and disclosure of financial instruments.
- We obtained an understanding of the significant account policies applied to financial instruments to ensure they comply with the new accounting standards.
- We ensured financial instruments have been appropriately recognized and measured in accordance with the new accounting standards.
- We reviewed the financial statement presentation and note disclosures to ensure that it is consistent with the new accounting standards.

Our findings

There were no issues noted in our testing.



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.



Deferred development cost charges (“DCC”)

Background

Estimate?

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.

No

Our response

- We updated our understanding of the process activities and controls over DCC.
- We tested a select sample of 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.
- We also tested a select sample of DCC expenditures to determine if the expenditure amount was accurately recorded and appropriately classified as a DCC expense.
- We performed 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.
- We reviewed the financial statement note disclosure to ensure it is complete and accurate.

Our findings

There were no issues noted in our testing.

Consistent with prior years, we continue to highlight that the Queensborough Transportation DCC fund is in a negative balance.



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.



Tangible Capital Assets (“TCA”)

Background

TCA represent a significant portion of assets of the City. The assets owned by the City include land, buildings, furniture and equipment, vehicles, water and waste system infrastructure, road infrastructure, library collection and their useful lives require estimation.

Estimate?

Yes - the established useful lives of TCA

Our response

- We updated our understanding of the process activities and controls over TCA.
- We obtained the TCA continuity schedule, verified its mathematical accuracy, and performed substantive procedures over additions, disposals, reclassifications, and other adjustments.
- We tested a sample of asset additions, including contributed assets in the population and considering WIP/AUC transfers, and inspected supporting documentation to determine if additions are capital in nature and amounts recorded are accurate.
- We performed an analytical review of the amortization of tangible capital assets and assessed the reasonableness of assets' useful lives.
- We reviewed the financial statement note disclosure to ensure it is complete and accurate.

Our findings

There were no issues noted in our testing.



Other risks of material misstatement and results (continued)

We highlight our significant findings in respect of **other risks of material misstatement**.



Expenses, including Payroll

Background

Estimate?

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

No

Our response

- We updated our understanding of the process activities and controls for expenses, including payroll.
- We performed analytical reviews over expenses including payroll relative to the prior year based on changes in operations, head count and pay rates.
- We also tested a select sample of expenses incurred, to ensure expenses are accurately recorded and appropriately classified.
- We performed a search for unrecorded liabilities to ensure expenses are recorded in the appropriate fiscal year.

Our findings

There were no issues noted in our testing.



Accounting policies and practices



Significant accounting policies

- There have been no initial selections of, or changes to, significant accounting policies and practices, except for the adoption of Canadian public standard PS 3280 *Asset Retirement Obligations* (see pages 7 to 8) and new financial instruments suite of standards PS 3450 *Financial instruments*, PS 2601 *Foreign currency translation*, PS 1201 *Financial statement presentation* and PS 3041 *Portfolio investments* (see page 9).
- 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.

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.



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

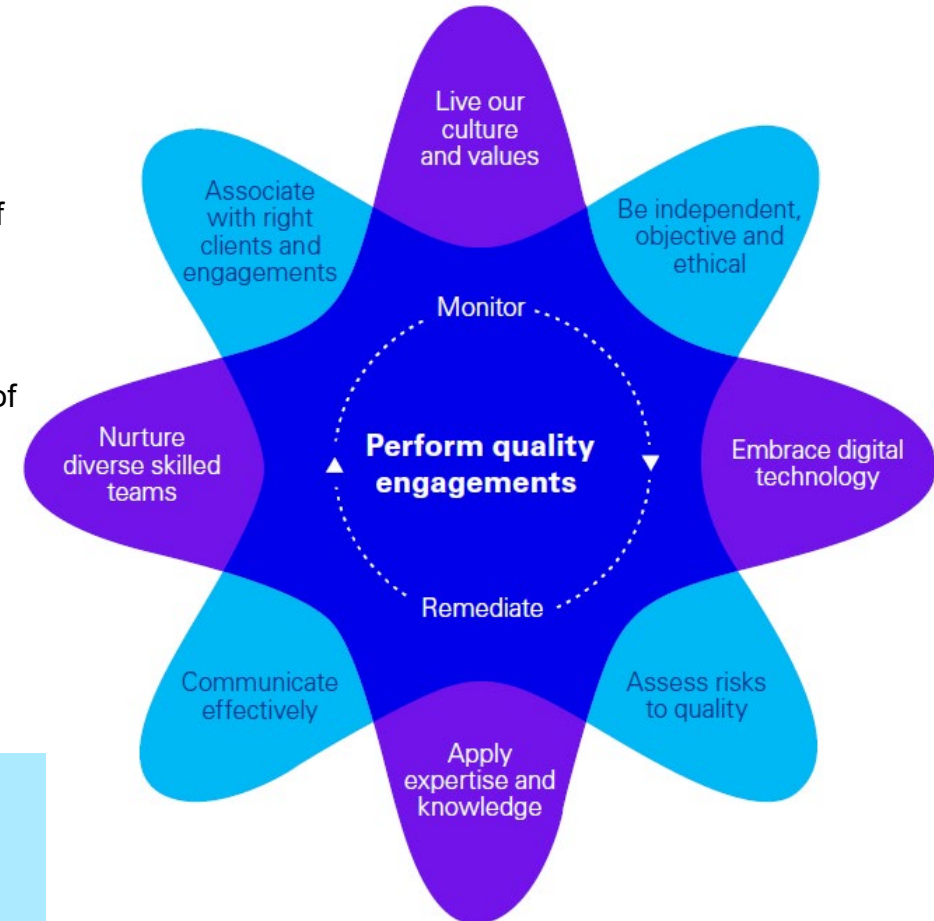
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contributes to its delivery.

The drivers outlined in the framework are the ten components of the KPMG System of Quality Management (SoQM). Aligned with ISQM 1/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. Our Transparency Report includes our firm's Statement on the Effectiveness of our SoQM.

 [KPMG 2023 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.



Appendices

1

Required communications

2

Management representation letter

3

ESG - Global regulatory reporting standards





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.

Audit findings report

Represented by this report.

Management representation letter

In accordance with professional standards, a copy of the management representation letters for the City are included in Appendix 2.

Internal control deficiencies

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

Independence

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



Appendix 2: Management representation letter

(Letterhead of Client)

KPMG LLP
777 Dunsmuir Street
P.O. Box 10426
Vancouver, B.C. V7Y 1K3

[Date of Auditor's Report]

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 (hereinafter referred to as "financial statements") of Corporation of the City of New Westminster ("the City") as at and for the year ended December 31, 2023.

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 contract dated October 18, 2023, 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.
- 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 City, 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 or illegal acts, 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 the 2023 Annual Report will be provided to you when available, and prior to issuance by the City, to enable you to complete your required 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,

Lisa Spitale, Chief Administrative Officer

Shehzad Somji, Chief Financial Officer

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 City's own circumstances.

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 City'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.



Appendix 3: ESG - Global regulatory reporting standards

	ISSB ¹ and CSSB	Canadian regulators (CSA)	US (SEC ^{2,3} and California ⁴)	EU ^{5,6}
Recent Activity	<ul style="list-style-type: none"> On March 13, 2024 the Canadian Sustainability Standards Board (CSSB) released proposals on its first two Canadian Sustainability Disclosure Standards (CSDS): Exposure Draft CSDS 1 (proposed general requirements standard) and Exposure Draft CSDS 2 (proposed climate standard). The proposed standards are aligned with the global baseline disclosure standards IFRS S1 and IFRS S2 with the exception of a Canadian-specific effective date for annual reporting periods beginning on or after January 1, 2025 and incremental transition relief. In June 2023, the International Sustainability Standards Board (ISSB) issued its first two IFRS Sustainability Disclosure Standards – IFRS S1 (general requirements standard) and IFRS S2 (climate standard). The ISSB standards are effective for annual periods beginning on or after January 1, 2024 – subject to local jurisdiction adoption. 	<ul style="list-style-type: none"> In parallel with the CSSB's release of its proposals on March 13, 2024, the Canadian Securities Administrators (CSA) issued a statement noting that they will seek consultation on a revised climate-related disclosure rule following the finalization of CSDS 1 and 2. In October 2021, the CSA issued their original proposed rule, proposed National Instrument 51-107 <i>Disclosure of Climate-related Matters</i>. Bill S-211, Canada's new Act on fighting against forced labor and child labour will take effect on January 1, 2024. Canadian and foreign businesses impacted by the Act will be required to file a report on their efforts to prevent and reduce the risk of forced labour and child labour in their supply chain, by May 31st of each year. 	<ul style="list-style-type: none"> The SEC's final climate rule was issued on March 6, 2024. The final rule will generally apply to all SEC registrants; <i>including</i> foreign private issuers (Form 20-F filers); <i>excluding</i> Canadian issuers reporting under the Multijurisdictional Disclosure System (Form 40-F filers) and asset-backed issuers. The earliest compliance date is the fiscal year beginning in Calendar year 2025 for large accelerated filers. The SEC also issued its final rules on cybersecurity in July 2023 and expects to release proposed disclosure rules on human capital management in spring 2024 and corporate board diversity in fall 2024. On October 7, 2023, the California Governor signed two climate disclosure laws that will shape climate disclosure practices beyond the state's borders. The laws will apply to US businesses (including US subsidiaries of non-US companies) that meet specified revenue thresholds and do business in California. The Governor also signed the California voluntary carbon market disclosures bill. 	<ul style="list-style-type: none"> The European Financial Reporting Advisory Group (EFRAG) was mandated to develop European Sustainability Reporting Standards (ESRSs) setting out the detailed disclosure requirements under the Corporate Sustainability Reporting Directive (CSRD). On July 31, 2023, the European Commission published the final text of its first set of twelve ESRSs as delegated acts The ESRSs will become effective as early as 2024 reporting periods for some companies. There are potentially considerable ESG reporting implications for Canadian entities – as most EU-listed companies and large subsidiaries of Canadian companies with significant operations in the EU are in scope. Non-EU parent entities with substantial activity in the EU may also be in scope, with separate standards to be developed for these entities, with an effective date of 2028 reporting periods

1. Refer to our [ISSB Resource Centre](#) for resources on implementing the IFRS Sustainability Disclosure Standards
2. Refer to our [Defining Issues](#) publication for more information on the SEC's final climate rule
3. Refer to our [Defining Issues](#) publication for more information on the SEC's cybersecurity rules
4. Refer to our [publication](#) on California's introduction of climate disclosures and assurance requirements
5. Refer to our [ESRS Resource Centre](#) for resources on implementing the ESRSs
6. Refer to our [publication](#) on the impact of EU ESG reporting on non-EU companies



<https://kpmg.com/ca/en/home.html>

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