City of Nanaimo

Audit Planning Report
for the year ending December 31, 2023

KPMG LLP

Prepared for the Finance and Audit Committee meeting on December 13, 2023

kpmg.ca/audit

KPMG contacts

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The purpose of this report is to assist you, as a member of the Finance and Audit Committee, 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, 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 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 ("financial statements") of the City of Nanaimo (the "Entity" or 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 $4.0 million**
- Involvement of others
- Updates to our prior year audit plan
- Audit timelines
- Required communications

Risk assessment

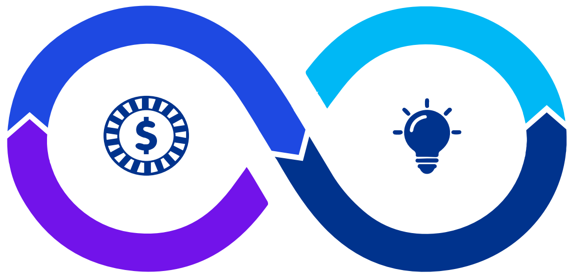
- Risk of management override of controls
- Significant risks

No significant risks to report beyond those required by professional standards

- Other risks of material misstatement

  - Revenue and receivables
  - Expenditures other than salaries and benefits
  - Salaries and benefits
  - Capital assets
  - Cash, investments and debt

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

$4.0 million

(2022: $3.7 million)

Prior Year Total Expenses

$188 million

(2022: $181 million)

No change in benchmark compared to prior year

% of Benchmark

2.1%

(2022: 2.0%)

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

Audit Misstatement Posting Threshold

$200,000

(2022: $185,000)

Involvement of others

The following parties are involved in the audit of the financial statements:

Involved party	Nature and extent of planned involvement
Management's specialists: actuary	The actuary will perform an actuarial valuation of compensated absences and termination benefits (together employee future benefits).

Updates to our prior year audit plan

New significant risks and focus areas

No significant risks noted

During our preliminary risk assessment process, we did not identify any significant risks. Any changes to the audit plan will be communicated to Management and Those Charged with Governance.

No new audit focus areas

During our preliminary risk assessment process, we did not identify any new audit focus areas. Any changes to the audit plan will be communicated to Management and Those Charged with Governance.

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

See Appendix 3 for further information about the impact of these new standards

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.
See Appendix 4 for further information

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 industry, the wider economic environment in which the business 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
●	Capital assets and commitments		✓	Elevated
●	Revenue and deferred revenue		✓	Elevated
●	Salary and benefits accruals and liabilities		✓	Elevated
●	Salary and benefits expenditures		✓	Base
●	Accumulated surplus and reserves		✓	Base
●	Cash, investments and debt		✓	Base
●	Expenditures other than salaries and benefits		✓	Base

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

Highlights | Audit strategy | Risk assessment | Key milestones and deliverables | Appendices

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

- How do you oversee fraud risk assessments and the establishment of controls to address fraud risks?
- What are your views about fraud risks, including management override of controls, at the entity and whether you have taken any actions to respond to these risks?
- Are you aware of, or have you identified, any instances of actual, suspected, or alleged 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?
- Are you aware of or have you received tips or complaints regarding the entity's financial reporting (including those received through the internal whistleblower program, if such program exists) and, if so, what was your response to such tips and complaints?
- What is Council's understanding of the entity's relationships and transactions with related parties that are significant to the entity?
- Does any member of Council have concerns regarding relationships or transactions with related parties and, if so, what are the substance of those concerns?
- Has the entity entered into any significant unusual transactions?

Key milestones and deliverables

October 2023
- Planning
- Risk Assessment

November 2023
- Interim audit work

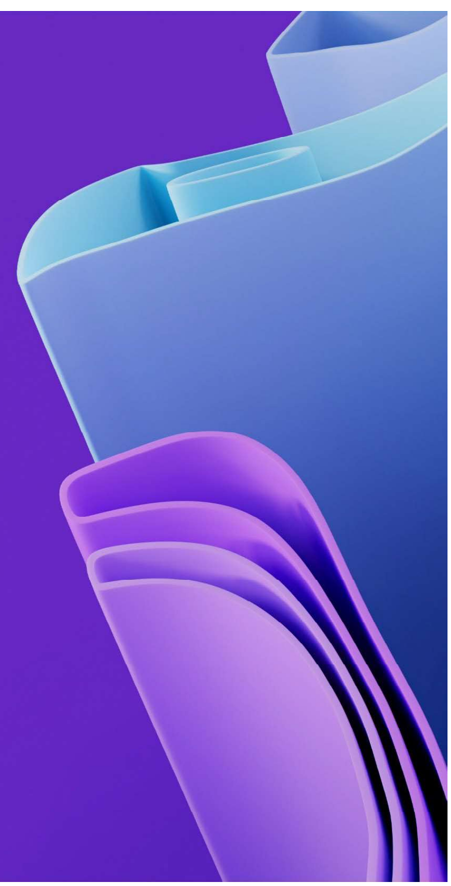
December 2023
- Present Audit Planning Report

March 2024
- Year end audit work

April 2024
- Present Audit Findings Report and issue auditor's report

May 2024
- Audit debrief

Appendices



1. Required communications
2. Audit quality
3. Changes in accounting standards
4. Newly effective and upcoming changes to auditing standards
5. Thought leadership and insights: Environmental, social and governance (ESG)
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.

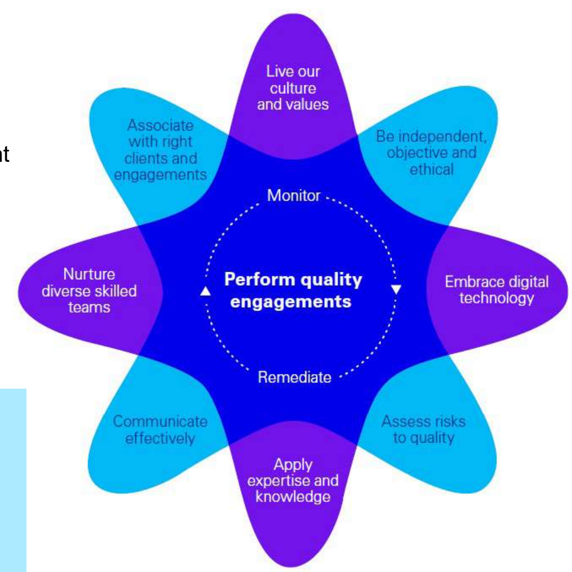
Perform quality engagement sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

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.

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.**



Appendix 3: Changes in accounting standards

Standard	Summary and implications
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 the City records the revenue and an event has happened that gives the public sector entity the right to the revenue.
Public Private Partnerships	• 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 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 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.
Financial instruments and foreign currency translation	• The new standards PS 3450 *Financial instruments*, PS 2601 *Foreign currency translation*, PS 1201 *Financial statement presentation* and PS 3041 *Portfolio investments* are effective for fiscal years beginning 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. • PS 3450 *Financial instruments* was amended subsequent to its initial release to include various federal government narrow-scope amendments.

Appendix 3: Changes in accounting standards (continued)

Standard	Summary and implications
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.

Financial Statement Presentation	• The proposed section PS 1202 *Financial statement presentation* will replace the current section PS 1201 *Financial statement presentation*. PS 1202 *Financial statement presentation* will apply to fiscal years beginning on or after April 1, 2026 to coincide with the adoption of the revised conceptual framework. Early adoption will be permitted.
	• The proposed section includes the following:
	  • Relocation of the net debt indicator to its own statement called the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained.
	  • Separating liabilities into financial liabilities and non-financial liabilities.
	  • Restructuring the statement of financial position to present total assets followed by total liabilities.
	  • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).
	  • Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”.
	  • A new provision whereby an entity can use an amended budget in certain circumstances.
	  • Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.
	• The Public Sector Accounting Board is currently deliberating on feedback received on exposure drafts related to the reporting model.

Appendix 3: Changes in accounting standards: asset retirement obligations

PS 3280 Asset Retirement Obligations (“PS 3280”) is a new accounting standard effective for the City’s fiscal year ending December 31, 2023. 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 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

Appendix 5: Thought leadership and insights

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

First 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 of Nanaimo, the new IFRS sustainability standards provide key insights into what the future of sustainability reporting may look like for the City of Nanaimo.**

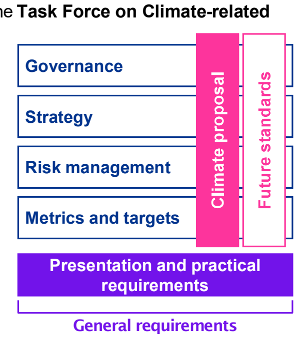
Summary of the recently released standards

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 5: Thought leadership and insights (continued)

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

Note: Click on images to visit document link.

CoP26 made progress towards tackling climate change, but there is much more to do.

At KPMG, we’re committed to accelerating the changes required to fight climate change.

The Green City outlines the need of the cities and the buildings in them to reflect climate consciousness.

The link provides guidance on what that looks like and the first steps to meeting those objectives.

This highlights a five-part framework to help organizations shape the total impact of strategy and operations on performance both externally, and internally.

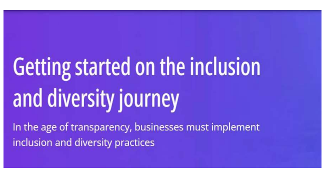
This report outlines the updates in regulatory sustainability reporting.

Its focus is comparing and contrasting proposals from the ISSB, EFRAG, and the SEC.

Appendix 5: Thought leadership and insights (continued)

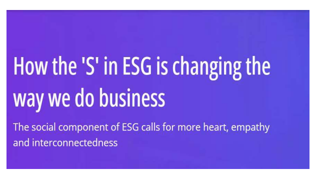
Thought leadership – Environmental, social and governance (“ESG”) (continued)

Note: Click on images to visit document link.



In this age of transparency, businesses must act proactively to implement strategic inclusion and diversity (“I&D”) practices.

This link is a guide for organizations on their own transformation journey.



The "S" in ESG is becoming critical as people and organizations become more conscious about how the social aspect of business will impact their future.

This article touches on the social movements driving business change.

As the severity of climate impacts increase, so do the socio-economic disruptions due to the risk and fall of climate impacted sectors and projects.

This article breaks down the impact on institutional investors.

This article outlines how ESG is impacting valuation and performance of the underlying companies institutional investors have a stake in.

Market statistics highlight the issues surrounding responsible investment.

KPMG’s Climate Change Financial Reporting Resource Centre

KPMG’s climate change resource centre provides FAQs to help you identify the potential financial statement impacts for your business.

Click here to access KPMG’s portal.

A closer look at the GHG Protocol

Chartered Professional Accountants of Canada (CPA Canada) and the Institute for Sustainable Finance (ISF) produced a 23-page report (click here) on the GHG Protocol. The report looks to inform potential preparers and users of emissions disclosure; policy makers; standard setters; regulators; and others, and to spur important additional research into key aspects of emissions disclosure and standards that require closer attention.

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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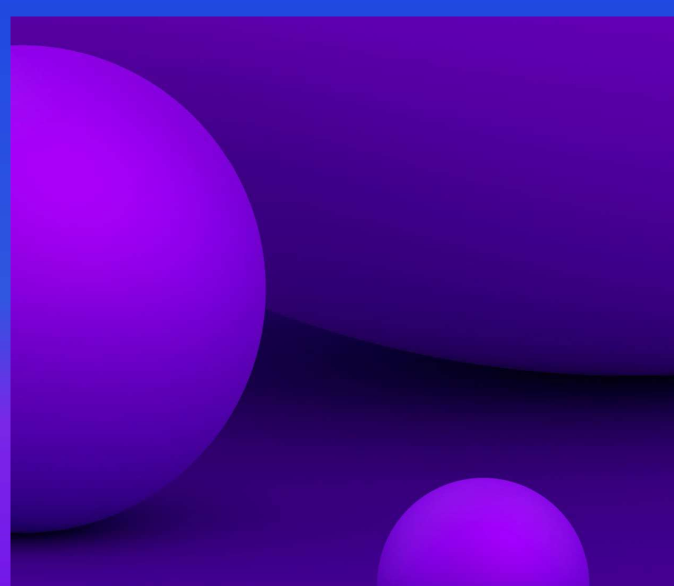

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