

2020 Audit Findings Report

Presented To:	Audit Committee
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Meeting Date:	May 31, 2021
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Type:	Managers' Reports
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Recommended by:	General Manager of Corporate Services
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Report Summary

This report provide information regarding Audit standard to communicate specific information to an Audit Committee. The City's external auditors will be presenting their findings and statutory communications for the 2020 year-end.

Relationship to the Strategic Plan, Health Impact Assessment and Community Energy & Emissions Plan (CEEP)

This report refers to operational matters and has no direct connection to the Community Energy & emissions Plan.

Financial Implications

There are no financial implications associated with this report

Background

The City of Greater Sudbury has public accountability therefore auditing standards require auditors to communicate specific information to the City's Audit Committee. The City's external auditors, KPMG LLP, will be presenting their Audit Findings Report with respect to the 2020 year-end which will include the following:

- Audit, fraud and other risks and results
- Financial Statement presentation and disclosure
- Adjustments and differences
- Control observations

In addition to reporting that the City's financial transactions appropriately followed Generally Accepted Accounting Principles for local governments established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada, management also has a responsibility to apply their best judgment at the time in preparing accounting estimates and/or disclosures in the financial statements.

The auditors apply the concept of materiality in determining whether or not the statements are considered to be fairly stated. Materiality includes both qualitative and quantitative factors which are assessed in the light of whether or not they may influence the decisions made by persons relying on the financial statements. The external auditors have confirmed that there are no material unadjusted financial statement misstatements.

A further requirement of any audit is to obtain sufficient understanding of internal controls and to test those internal controls so that the external auditors can place reliance on them as part of the audit. As outlined in the Audit Findings Report there were no observed weaknesses in the City's system of internal controls and financial reporting processes.

The presentation will communicate a summary of any significant findings and other matters which our external auditors believe should be brought to your attention, thereby assisting the Audit Committee with respect to their review and recommendation to Council for approval of the City of Greater Sudbury's 2020 Consolidated Financial Statements.

Attached is the complete Audit Findings Report prepared by the external auditors.

City of Greater Sudbury

Audit Findings Report
for the year ended December 31, 2020

May 31st, 2021

kpmg.ca/audit



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Executive summary

Purpose of this report¹

The purpose of this Audit Findings Report is to assist you, as a member of the audit committee, in your review of the results of our audit of the financial statements as at and for the year ended December 31, 2020. This Audit Findings Report builds on the Audit Plan we presented to the audit committee.

Changes from the Audit Plan

No significant changes were made to our audit approach as outlined in our audit plan dated September 15, 2020.

Finalizing the Audit

As of May 31, 2021, we have completed the audit of financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing our discussions with the audit committee
- Updating our analysis of subsequent events
- Obtaining evidence of the Council's approval of the financial statements

We will update the audit committee, and not solely the Chair, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

Independence

We confirm that we are independent of the City in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

¹ This Audit Findings Report should not be used for any other purpose or by anyone other than the audit committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings 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.

Uncorrected differences

We did not identify differences that remain uncorrected.

Control deficiencies

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

Other observations

While the ongoing COVID-19 pandemic has impacted the City's operations, it has not resulted in material implications from an auditing or financial reporting perspective:

- Pandemic-related funding under the Safe Restart Program has been recognized in accordance with revenue recognition criteria established by the Province of Ontario; and
- The City has not undertaken significant restructuring or other changes to its operations that would have resulted in material year-end accruals, provisions or other financial reporting considerations.

Audit risks and results

Relevant factors affecting our risk assessment

Complexity



We highlight our significant findings in respect of significant financial reporting risks as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified.

1	Significant Risk	Revenue recognition
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Significant financial reporting risk

The potential exists for misstatements in revenue recognition for conditional funding sources due to complexity, uncertainty and/or management bias.

Our response and significant findings

- We have reviewed management's calculation of revenues and identified revenues that are conditional in nature. For significant conditional revenue sources, we tested supporting documentation demonstrating that the revenue recognition criteria have been achieved.
- We have reviewed the disposition of the prior year's opening balance sheet amounts (receivables, payables) as well as the treatment of differences between the amount of funding received and the amount recognized as revenue (i.e. current year's balance sheet amounts).
- We have reviewed revenue recognition criteria associated with pandemic-related funding received during the year and assessed the appropriateness of management's recognition of revenues under the Safe Restart Program

Based on our audit procedures, we did not identify any audit misstatements relating to conditional revenue sources for communication to the Audit Committee. We also did not identify any significant weaknesses in the City's system of internal controls over revenues.

Audit risks and results

Relevant factors affecting our risk assessment

Complexity



Estimate



2 Significant Risk

Management estimates

Significant financial reporting risk

The City's financial statements include a number of large management estimates, including but not limited to landfill closure and post-closure costs and employee future benefits. An estimate with a high degree of estimation uncertainty is considered a significant risk under professional standards

Our response and significant findings

- We have assessed the extent to which the City's financial statements include amounts with measurement uncertainty (i.e. the potential for fluctuations in the reported amounts due to uncertainty and variability in assumptions, data and methodologies) and the resultant potential for a material misstatement.
- We have reviewed management's calculations with respect to significant management estimates, including but not limited to year-end water and wastewater billings, allowances for doubtful accounts, payroll-related accruals and provisions for taxes under appeal.
- We have assessed our ability to rely on the City's experts for the purposes of determining the amount of post-employment benefits and landfill closure and post-closure costs and have undertaken procedures to assess the reasonableness of key assumptions and the underlying data.

Based on our audit procedures, we did not identify any audit misstatements relating to management estimates for communication to the Audit Committee. We also did not identify any apparent contravention of legislation, regulation or contractual requirements.

Audit risks and results

Relevant factors affecting our risk assessment

Complexity



3 Significant Risk

Capital assets

Significant financial reporting risk

The potential exists for misstatements in capital assets due to complexity over whether the requirements for capitalization have been met (i.e. betterment) and/or management bias.

Our response and significant findings

- We have tested a sample of capital additions and repairs and maintenance items to assess the appropriate classification of the expenditure (capitalization vs. expense).
- We have tested a sample of capital grants to assess the appropriateness and accuracy of the amount of recognized revenue.
- We have tested the calculation of amortization expense.

Based on our audit procedures, we did not identify any audit misstatements relating to capital assets or associated grant revenues for communication to the Audit Committee.

Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

4	Other area of focus	Additional risk areas
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Other area of focus

As outlined in our audit planning report, we have undertaken certain procedures intended to address potential reputational risks.

Our response and significant findings

- We have tested a sample of travel expense claims for members of Council and senior management to assess compliance with the City's policies.
- We have tested a sample of procurements to assess compliance with the City's procurement policy.
- We have performed expanded audit procedures over a non-material financial statement caption (prepaid expenses) as an element of unpredictability in our audit approach.
- In accordance with the new auditing standard relating to accounting estimates, we have identified all financial statement captions that include estimation uncertainty and assessed the extent to which the risk of a material misstatement is other than remote. For those financial statement captions where the assessment identified a risk that was other than remote, we have performed the necessary audit procedures as required by the new auditing standard, including the documentation of the City's processes for developing the accounting estimate, assessing potential risks (including potential management bias) inherent in the development of the estimate and performing testing over key data and assumptions used in the development of the estimates.

Based on the procedures performed, we did not identify any matters for communication to the Audit Committee.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Company's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter.

We also highlight the following:

Form, arrangement, and content of the financial statements	The form, arrangement and content of the financial statements is consistent with the prior year, the requirements under Public Sector Accounting Board Standards and best/common practice for Ontario municipalities.
Application of accounting pronouncements issued but not yet effective	<p>As a result of the pandemic, the implementation date for new accounting standards relating to asset retirement obligations and financial instruments have been deferred by one year, with the new standards applicable to the City's 2023 fiscal year. The City has not implemented the new standards prior to this implementation date.</p> <p>Note 2 provides disclosure relating to accounting standards issued but not yet adopted</p>

Other matters

Professional standards require us to communicate to the audit committee Other Matters, such as material inconsistencies or material misstatements between the City's annual reports and the audited financial statements, identified fraud or non-compliance with laws and regulations, consultations with other accountants, significant matters relating to the City's related parties, significant difficulties encountered during the audit, and disagreements with management.

There are no matters that have been identified during the course of our audit that require communication to the Audit Committee.

Uncorrected differences

Differences and adjustments include disclosure differences and adjustments.

Professional standards require that we request of management and the audit committee that all identified differences be corrected. We have already made this request of management.

As a result of our audit procedures, we have not identified any uncorrected audit differences above our posting threshold.

Control deficiencies

In accordance with professional standards, we are required to communicate to the audit committee significant deficiencies in internal control over financial reporting (ICFR) that we identified during our audit.

The purpose of our audit is to express an opinion on the financial statements. Our audit included consideration of ICFR in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ICFR. The matters being reported are limited to those deficiencies that we have identified during our audit and that we have concluded are of sufficient importance to merit being reported to the audit committee.

As a result of our audit procedures, we have not identified any control deficiencies in ICFR.

Appendices

Content

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Appendix 2: Audit Quality and Risk Management

Appendix 3: Key Audit Matters – Identification



Appendix 1: Required Communications

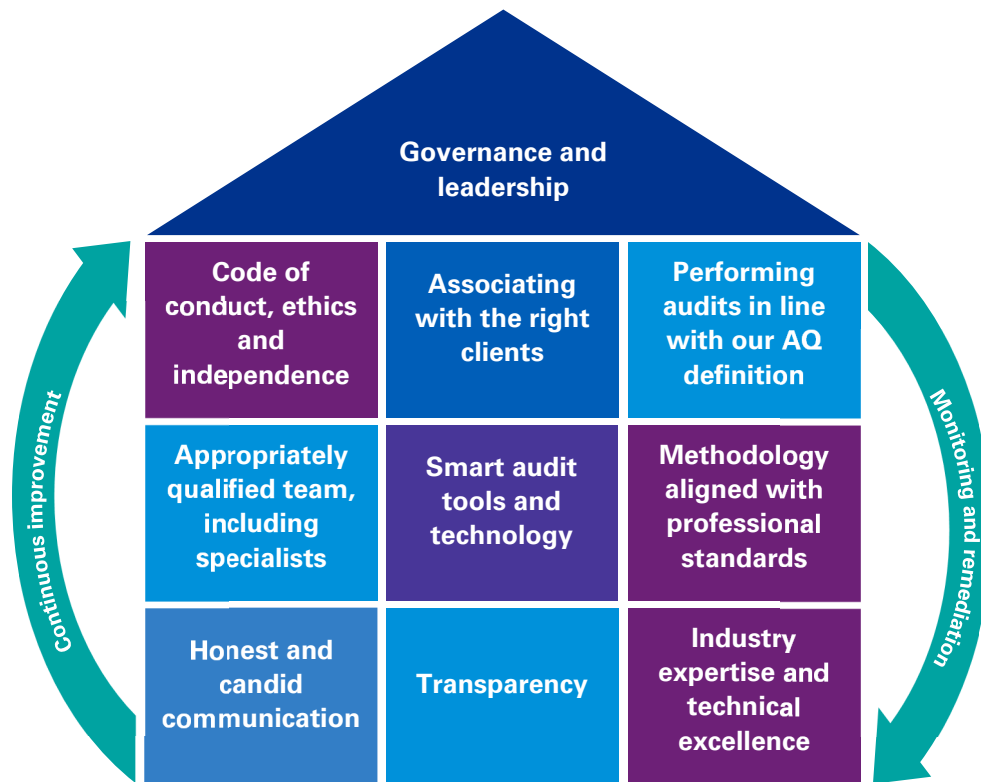
In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

Auditor's report	Management representation letter
The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.	The management representation letter will be provided to the City for signature in advance of the formal approval of the audited financial statements by City Council.
Annual independence confirmation	Audit quality
We confirm that we are independent as required by professional standards.	<p>Audit Quality (AQ) is at the core of everything we do at KPMG. Appendix 2 provides more information on AQ.</p> <p>The following links are external audit quality reports for referral by the audit committee:</p> <ul style="list-style-type: none">• <u>CPAB Audit Quality Insights Report: 2019 Annual Inspections Results</u>• <u>CPAB Audit Quality Insights Report: 2019 Fall Inspection Results</u>

Appendix 2: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarizes the key elements of our quality control system.



Audit Quality Framework

What do we mean by audit quality?

Audit Quality (AQ) is at the core of everything we do at KPMG.

We believe that it is not just about reaching the right opinion, but how we reach that opinion.

We define 'audit quality' as being the outcome when audits are:

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

Our AQ Framework summarises how we deliver AQ. Visit our [Audit Quality Resources page](#) for more information including access to our [Audit Quality and Transparency report](#).

Appendix 3: Key Audit Matters — Identification

Key audit matters (KAMs) are those matters that were communicated to those charged with governance which required significant auditor attention in performing the audit and that, in the auditor's professional judgment, were of the most significance in the audit of the financial statements in the current period.

Currently, the communication of KAMs in the auditors' report is only applicable when:

1. The auditors' report will refer to International Standards on Auditing and the audit is for a complete set of general purpose financial statements of a listed entity
2. Required by law or regulation; or
3. The auditor is engaged to do so

However, the AASB approved amendments to bullet #1 which now require auditors' to communicate KAMs in the auditors' report for audits of complete sets of general purpose financial statements of:

- Toronto Stock Exchange listed entities (TSX listed entities) for periods ending on or after December 15, 2020.
- Other listed entities (non-TSX listed entities) for periods ending on or after December 15, 2022.

The above excludes TSX listed entities / Non-TSX listed entities that comply with National Instrument 81-106, *Investment Fund Continuous Disclosure*.

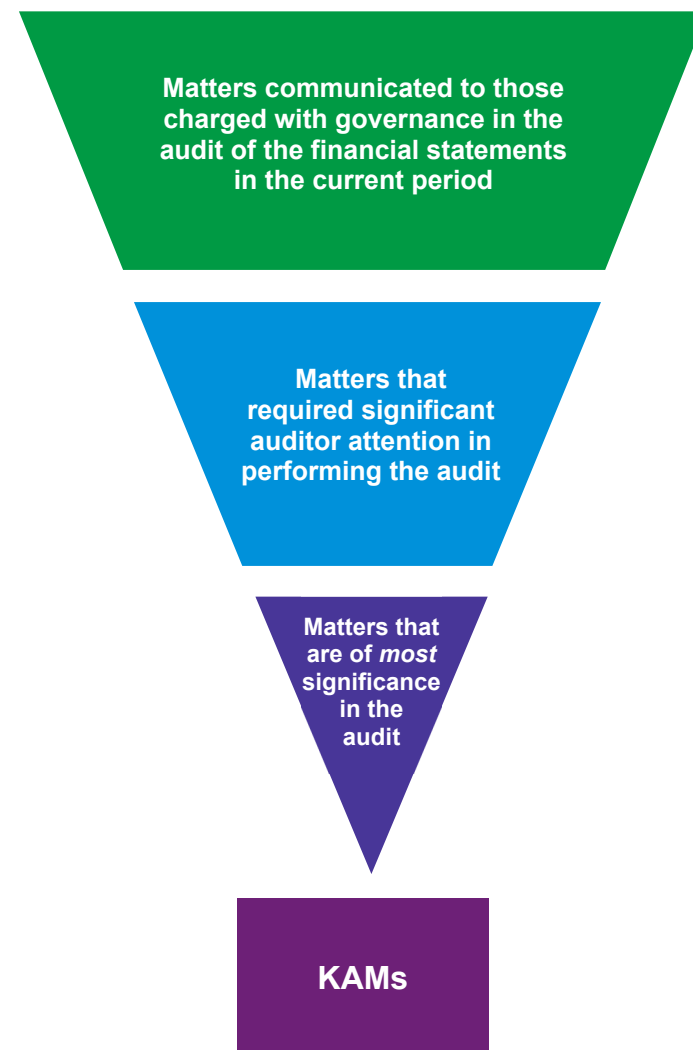
The above includes auditors' reports on separate/non-consolidated financial statements.

The total population of potential KAMs begins with all matters communicated to the audit committee during the audit of the current period.

The auditor is required to identify from that total population of potential KAMs, which matters required significant auditor attention in performing the audit. In doing so, the auditor is required to take into account the following:

- Areas of higher assessed risks of material misstatement identified
- Areas of significant risks identified
- Significant auditor judgments relating to areas in the financial statements that are subject to a high degree of estimation uncertainty
- The effect of the audit of significant events or transactions that occurred during the period

From that population of potential KAMs, the auditor identifies those matters that are of "most" significance in the audit. The use of the term "most" is not intended to limit the number of KAMs to one. However, lengthy lists of KAMs may be contrary to the notion that such matters are of most significance to the audit.





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