City of Greater Sudbury

Audit Planning Report
for the year ended December 31, 2021

KPMG LLP

December 7, 2021

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Executive summary

Audit and business risks

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- Revenue recognition of conditional funding sources
- Management estimates, including those relying on the external experts
- Accounting for capital assets

See page 3 to 6.

Audit materiality

Materiality has been determined to be $13.4 million, based on the prior year's reported revenues of $670 million.

See pages 7.

Quality control

We have a robust and consistent system of quality control. We provide complete transparency on all services and follow Audit Committee approved protocols.

See pages 9.

Current developments and audit trends

Please refer to page 11 for auditing changes relevant to the City

Audit risks

Significant financial reporting risk	Why is it significant?
The City receives funding from the Federal and Provincial governments under a variety of programs, including programs with specific revenue recognition criteria. This can result in potential financial reporting issues with respect to the amount of revenue recognized and the treatment of unearned funds at year-end (deferral vs. payable).	Grant revenues represent a major component of the City's revenues, accounting for 27% of reported revenues in the prior year.

Our audit approach

- We will review management's calculation of revenues and identified revenues that are conditional in nature, including any funding programs introduced in response to COVID-19. For significant conditional revenue sources, we will review and test supporting documentation demonstrating that the revenue recognition criteria have been achieved.
- We will review management's treatment of unearned revenues. For significant unearned revenue balances, we will test management's determination as to whether these represent deferred revenue or payable balances.
- We will review management's treatment of prior year unearned revenue accounts (deferred revenues, accounts payable) that are recognized as revenue in the current year. For significant income inclusions from prior year amounts, we will review supporting documentation to ensure that revenue recognition criteria have been met.

Audit risks

Significant financial reporting risk	Why is it significant?
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	Management estimates are inherently subjective in nature, requiring the determination of key assumptions that may result in a material misstatement or be influenced by management bias.

Our audit approach

Our audit approach will reflect the requirements of auditing standards relating to management estimates and will include, among other procedures,

- Assessing the spectrum of inherent risk in management estimates that considers estimation uncertainty, complexity and subjectivity
- Developing a separate assessment of inherent risk and control risk for significant management estimates
- Obtaining evidence from events occurring up to the date of the audit report
- Developing a point estimate or range to test the appropriateness of management's estimates
- Undertaking a "stand back" review that involves evaluating the reasonableness of estimates based on corroborative and contradictory audit evidence

Audit risks

Significant financial reporting risk	Why is it significant?
Accounting for capital expenditures requires the determination as to whether the item constitutes a betterment or an expense.	Capital expenditures represent a significant investment on the part of the City and in certain instances, may involve a degree of subjectivity and/or complexity in terms of whether they meet the criteria for capitalization.

Our audit approach

- We will perform substantive testing over recorded capital expenditures, including reviewing source documentation for a sample of capital expenditures, to determine the appropriate classification of costs (capitalization vs. expense).
- We will perform substantive testing over repairs and maintenance expenditures, including reviewing source documentation for a sample of capital expenditures, to identify any instances where items should be capitalized as opposed to expensed.
- We will review financial statement presentation and note disclosure of capital assets and deferred revenues

Other Areas of Focus

As an organization with high public profile, the City is exposed to potential reputational risks that may arise from transactions that, while not material to the financial statements, may call into question the appropriateness of the City's use of public funds. In order to address potential reputational risks, we will undertake the following procedures as a value-added service for the City:

– We will perform testing over a sample of procurements to ensure compliance with the City's procurement policies, including the requirement for competitive bids.
– We will select a sample of expense reports for City staff and elected officials to ensure compliance with the City's policies for travel and expense reimbursements, including approval requirements.
– We will conduct data analytics over selected aspects of the City's financial performance and operations in order to provide perspective on the City's financial performance.
– We will facilitate a Lean process mapping session with City staff that will identify potential enhancements to operating efficiencies, internal controls, customer service and risk management.

Materiality

Materiality is used to identify risks of material misstatements, develop an appropriate
audit response to such risks, and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors. To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

Materiality determination	Comments	Amount
Materiality	Materiality is determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was $13,000,000.	$13.4 million
Benchmark	Materiality is calculated at 2% of the prior year's revenue, which is consistent with the prior year.	$670 million

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We will report to the Audit Committee:

- Corrected audit misstatements
- Uncorrected audit misstatements

Audit Quality Matters

Audit Quality: How do we deliver audit quality?

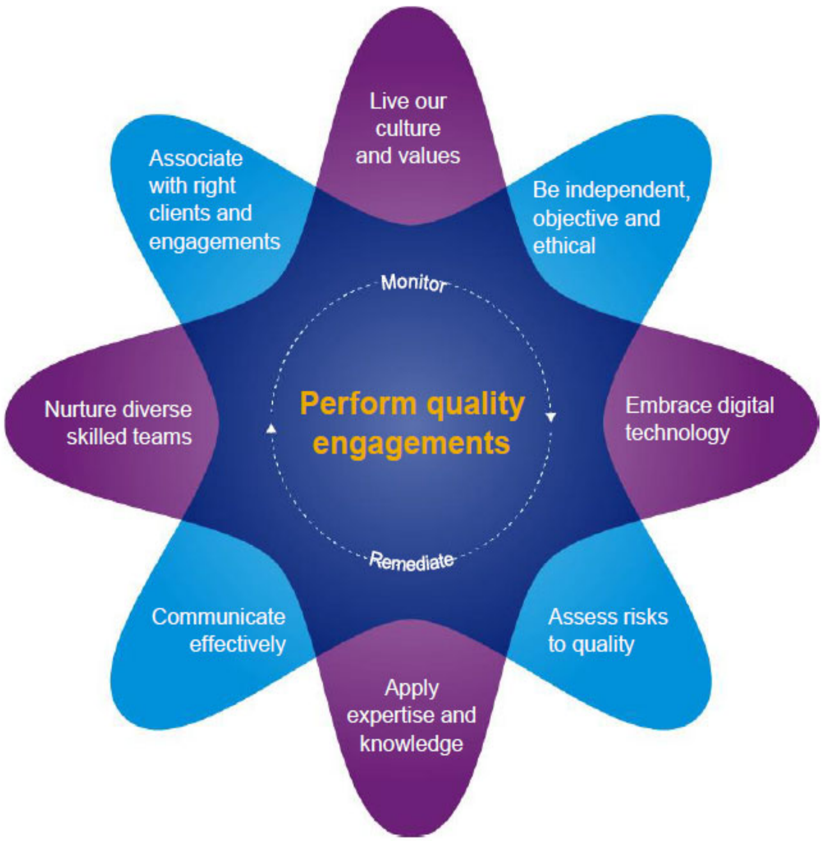
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contribute to its delivery.

'Perform quality engagements' 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.

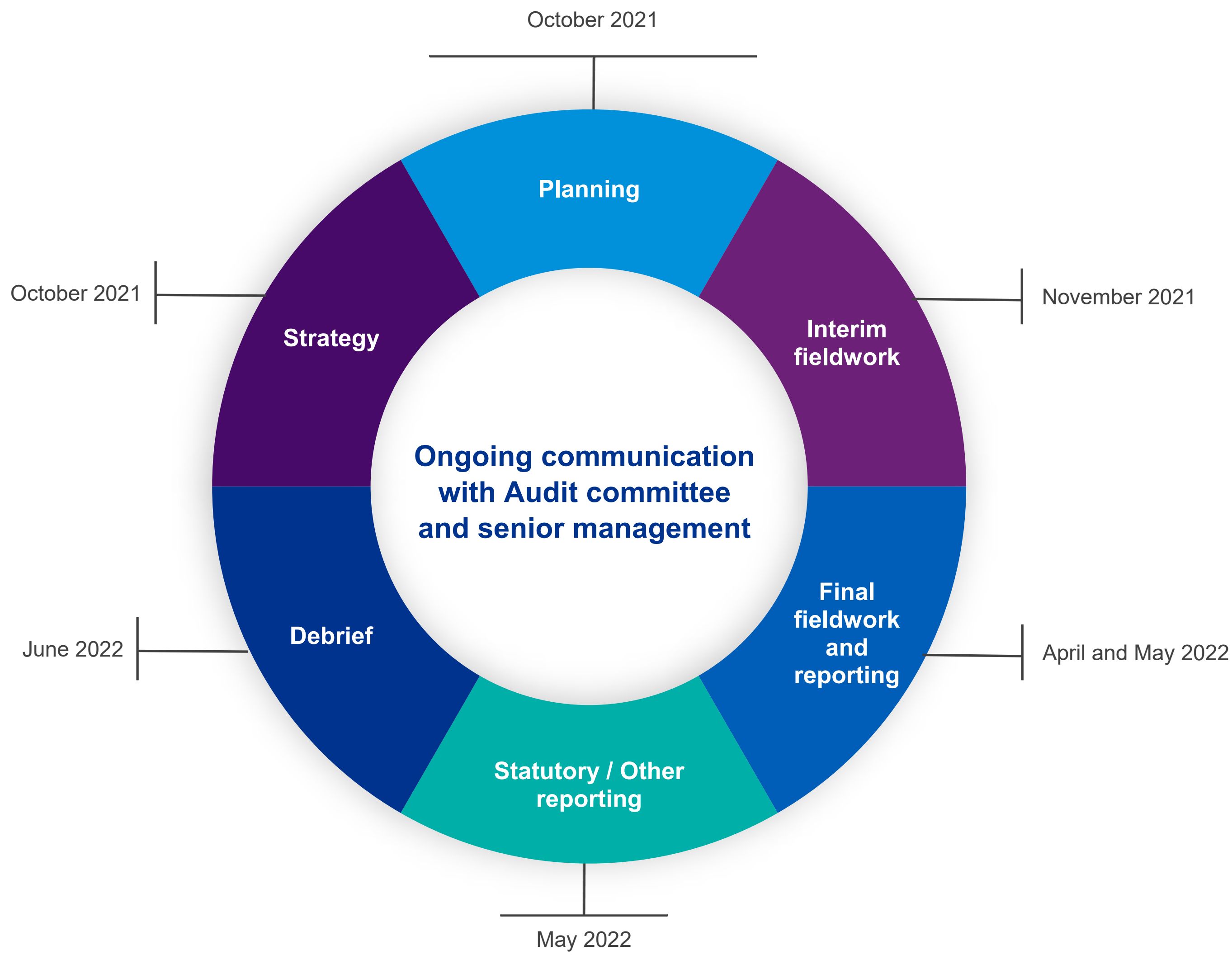
We define '**audit quality**' as being the outcome when:

- 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.**



Doing the right thing. Always.

Key deliverables and milestones



Current Developments

Public Sector Accounting Standards

Standard	Summary and implications
Asset Retirement Obligations	– The new standard is effective for fiscal years beginning on or after April 1, 2022. – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector entity will have to: • Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.
Revenue	– The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19. – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that in the case of revenues 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 revenues arise 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.

Standard	Summary and implications
Financial Instruments and Foreign Currency Translation	– The 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. The effective date was deferred by one year due to COVID-19. – 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.
Employee Future Benefit Obligations	– PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. In July 2020, PSAB approved a revised project plan. – PSAB intends 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, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. – PSAB released an exposure draft on proposed section PS3251, Employee Benefits in July 2021. Comments to PSAB on the proposed section are due by November 25, 2021. Proposed Section PS 3251 would apply to fiscal years beginning on or after April 1, 2026 and should be applied retroactively. Earlier adoption is permitted. The proposed PS3251 would replace existing Section PS 3250 and Section PS 3255. This proposed section would result in organizations 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.

Standard	Summary and implications
Public Private Partnerships ("P3")	– PSAB has introduced Section PS3160, which includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. The standard has an effective date of April 1, 2023, and may be applied retroactively or prospectively. – 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 P3 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.
Concepts Underlying Financial Performance	– PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – PSAB released four exposure drafts in early 2021 for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. The Board is in the process of considering stakeholder comments received. – PSAB is proposing a revised, ten chapter conceptual framework intended to replace PS 1000 *Financial Statement Concepts* and PS 1100 *Financial Statement Objectives*. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. – In addition, PSAB is proposing: • Relocation of the net debt indicator to its own statement and 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 non-financial assets before 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.

Standard	Summary and implications
Purchased Intangibles	– In October 2019, PSAB approved a proposal to allow public sector entities to recognize intangibles purchased through an exchange transaction. Practitioners are expected to use the definition of an asset, the general recognition criteria and the GAAP hierarchy to account for purchased intangibles. – PSAB has approved Public Sector Guideline 8 which allows recognition of intangibles purchased through an exchange transaction. Narrow-scope amendments were made to Section PS 1000 Financial statement concepts to remove prohibition on recognition of intangibles purchased through exchange transactions and PS 1201 Financial statement presentation to remove the requirement to disclose that purchased intangibles are not recognized. – The effective date is April 1, 2023 with early adoption permitted. Application may be retroactive or prospective.
2022 – 2027 Strategic Plan	– PSAB's Draft 2022 – 2027 Strategic Plan was issued for public comment in May 2021. Comments were requested for October 6, 2021. – The Strategic Plan sets out broad strategic objectives that help guide PSAB in achieving its public interest mandate over a multi-year period, and determining standard-setting priorities – The Strategic Plan emphasizes four key priorities: – Develop relevant and high-quality accounting standards - Continue to develop relevant and high-quality accounting standards in line with PSAB's due process, including implementation of the international strategy (focused on adapting International Public Sector Accounting Standards for new standards) and completion of the Conceptual Framework and Reporting Model project. – Enhance and strengthen relationships with stakeholders - Includes increased engagement with Indigenous Governments and exploring the use of customized reporting. – Enhance and strengthen relationships with other standard setters – In addition to continued collaboration with other standard setters, this emphasizes strengthened relationship with the IPSASB. – Support forward-looking accounting and reporting initiatives – Supporting and encouraging ESG reporting, and consideration of the development of ESG reporting guidance for the Canadian public sector.

Appendices

Content

Appendix 1: Required communications

Report	Engagement terms
A draft report will be provided at the completion of the audit.	Unless you inform us otherwise, we understand that you acknowledge and agree to the terms of the engagement set out in the engagement letter and any subsequent amendments as provided by management.
Reports to the Audit Committee	**Representations of management**
At the completion of the audit, we will provide our findings report to the Audit Committee.	We will obtain from management certain representations at the completion of the audit.
Matters pertaining to independence	**Internal control deficiencies**
At the completion of our audit, we will confirm our independence with the Audit Committee.	Other control deficiencies, identified during the audit, that do not rise to the level of a significant deficiency will be communicated to management.

Required inquiries	Audit Quality
Professional standards require that during the planning of our audit we obtain your views on the identification and assessment of risks of material misstatement, whether due to fraud or error, your oversight over such risk assessment, identification of suspected, alleged or actual fraudulent behaviour, and any significant unusual transactions during the period.	The reports available through the following links were published by the Canadian Public Accountability Board to inform audit committees and other stakeholders about the results of recent quality inspections in Canada: • Audit Quality Insights Report: 2020 Annual Audit Quality Assessments • CPAB 2020 Annual Report - Regulatory Oversight in a Global Pandemic • CPAB Audit Quality Insights Report: 2021 Interim Inspections Results

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