# City of Greater Sudbury

**Audit Planning Report**
**for the year ended December 31, 2022**

KPMG LLP

Prepared on November 10, 2022 for the Audit Committee Meeting on December 13, 2022

# KPMG contacts

**Key contacts in connection with this engagement**

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# Audit Quality: How do we deliver audit quality?

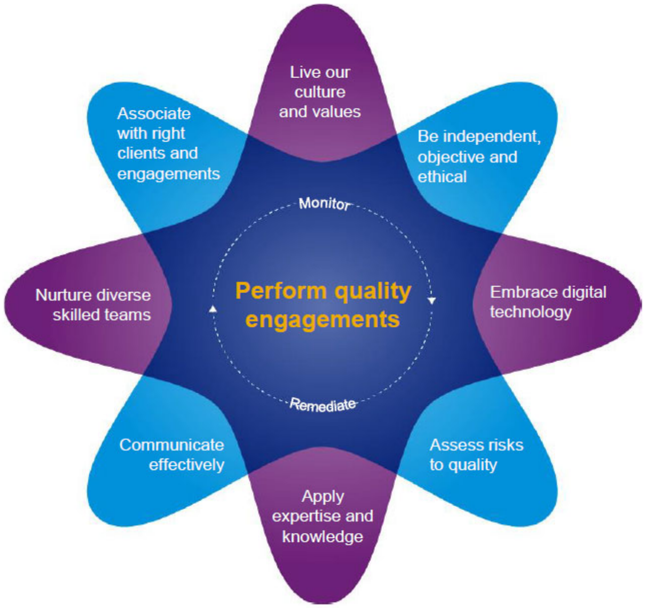
**Quality** essentially means doing the right thing and remains our highest priority. Our **Global Quality Framework** outlines how we deliver quality and how every partner and staff member contribute to its delivery.


**'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.**

# Highlights

## Scope of the audit

Our audit of the consolidated financial statements ("financial statements") of the City of Greater Sudbury (the "City") as of and for the year ending December 31, 2022 will be performed in accordance with Canadian generally accepted auditing standards (CASs).

### Significant risks

The presumed fraud risk related to management override of controls.

### Rebuttable significant risks

The presumed fraud risk involving improper revenue recognition has been rebutted by us.

### Newly effective auditing standards

CAS 315 is effective for audits of financial statements for periods beginning on or after December 14, 2021. See Appendix 2: Newly effective auditing standards for details.

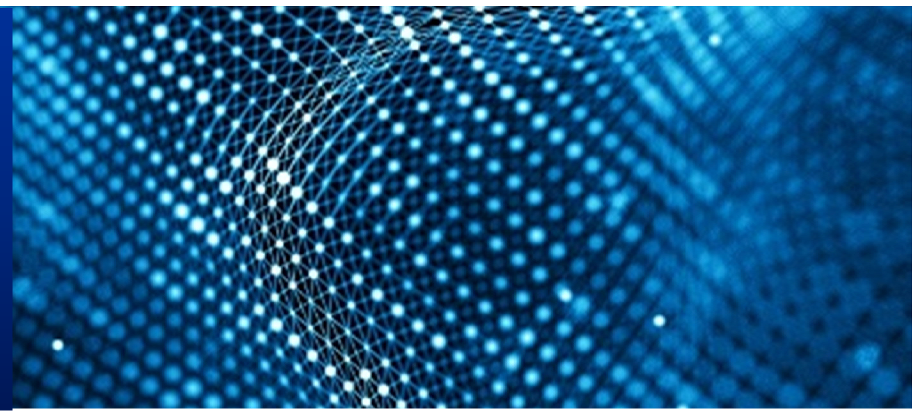
### Future pronouncements

The most significant accounting pronouncement in the near term relates to Asset Retirement Obligations that will be applicable in fiscal 2023.

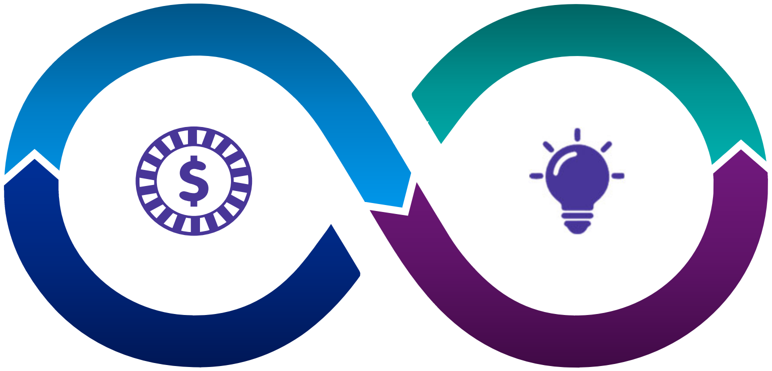
**Report highlights:**

7 **Group Materiality**

9 **Audit Risks**



# 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.

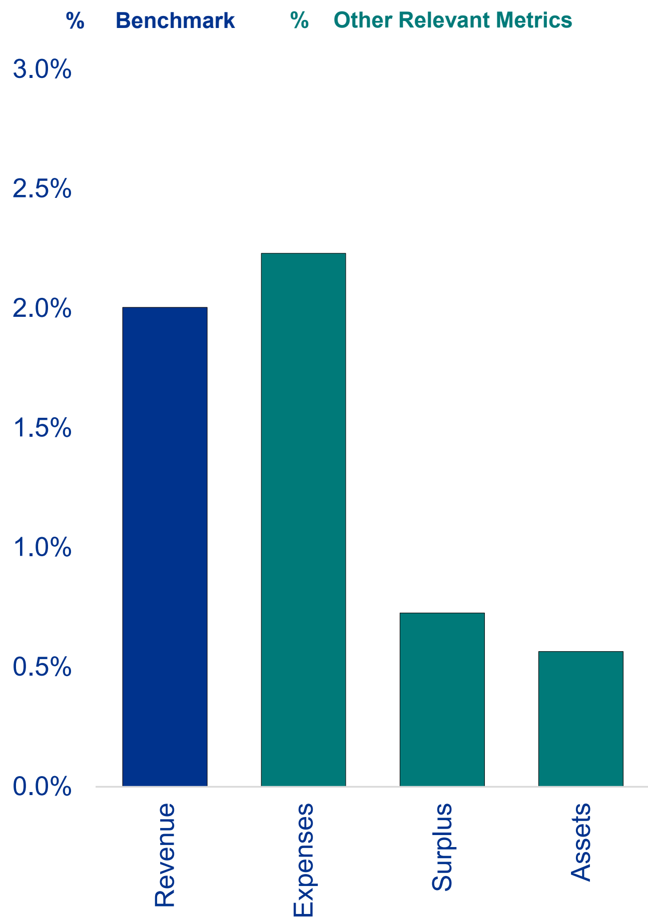
We design our procedures to detect misstatements at a level less than materiality in individual accounts and disclosures, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

## 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.

# Group materiality




**Materiality**

$13,900,000

(2021: $13,400,000)

**Total Revenues (2021)**

$693,245,000

2020: $670,158,000

**Total Expenses (2021)**

$622,857,000

2020: $605,428,000

**Accumulated Surplus (2021)**

$1,911,955,000

2020: $1,841,567,000

**Total Assets (2021)**

$2,454,576,000

2020: $2,377,464,000

# Group audit - scoping

| Procedures performed by | Financial Reporting | Scope of Audit Work |
|---|---|---|
| City of Greater Sudbury (non-consolidated) | Consolidated | Full-scope audit on consolidated financial statements |
| Greater Sudbury Housing Corporation | Consolidated | Full-scope audit on stand-alone financial statements |
| Greater Sudbury Police Services Board | Consolidated | Audited as part of City of Greater Sudbury financial statements |
| Downtown Sudbury | Consolidated | Full-scope audit on stand-alone financial statements |
| Flour Mill Business Improvement Area | Consolidated | Audited as part of City of Greater Sudbury financial statements |
| Greater Sudbury Public Library Board | Consolidated | Audited as part of City of Greater Sudbury financial statements |
| Greater Sudbury Utilities | Modified Equity Method (Government Business Enterprise) | Full-scope audit on stand-alone financial statements |
| Sudbury Airport Community Development Corporation | Modified Equity Method (Government Business Enterprise) | Full-scope audit on stand-alone financial statements |

# Risk assessment summary

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

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

| | | Risk of fraud | Risk of error |
|---|---|---|---|
| ● (orange) | Management Override of Controls | ✓ | |
| ● (teal) | Tangible Capital Assets | | ✓ |
| ● (teal) | Employee Future Benefit Obligations | | ✓ |
| ● (teal) | Government Grants | | ✓ |
| ● (teal) | Payroll Expenses (including related accruals) | | ✓ |
| ● (teal) | Financial Reporting | | ✓ |

● (orange) PRESUMED RISK OF MATERIAL MISSTATEMENT

● (teal) OTHER AREA OF FOCUS

# Significant risks

## Management Override of Controls

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.

### Audit approach

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.

# Other areas of focus

| Areas | Risk due to error | Audit approach |
|---|---|---|
| **Tangible Capital Assets** | Related to the classification of tangible capital assets between operating and capital, as well as the completeness of assets. | – Vouch significant additions and disposals to supporting documentation.<br>– Review of repair and maintenance expenses for proper accounting treatment.<br>– Review the existence of the capital assets schedule with capital assets inventory maintained by management.<br>– Perform analytical audit procedures to ensure adequacy of amortization.<br>– Enquire as to the impairment of any tangible capital assets. |
| **Employee Future Benefit Obligations** | Significant estimate with related management and actuarial assumptions to calculate the annual obligation. | – We will perform substantive procedures, including review and application of assumptions as well as the use of management's experts (actuaries)<br>– We will review the disclosures in the consolidated financial statements. |
| **Government Grants** | Related to the completeness of grant revenue (including related receivables and deferred revenue) and accuracy of timing of revenue recognition. | – We will review the year-end reconciliation of closing grant balances, and obtain supporting documentation for significant reconciling items.<br>– We will confirm certain balances or review supporting documentation for significant grant funds received by the City during the year.<br>– We will complete analytical procedures to ensure the appropriate recognition of revenue and related payables, deferrals and receivables, as required.<br>– We will perform substantive tests to address the eligibility of costs incurred. |
| **Payroll Expenses (including related accruals)** | Related to the completeness, existence and accuracy of payroll expenses (including related payables) | – Test and evaluate design and operating effectiveness of controls over payroll.<br>– Perform substantive analytical procedures over salaries and benefits, including related accruals.<br>– Recalculate significant accruals and review collective agreements for the completeness of liabilities related to retroactive pay. |
| **Financial Reporting** | Related to the presentation and disclosures of the consolidated financial statements | – Review the conclusion of control for all components and the related consolidation in the financial statements.<br>– Review by the engagement partner to ensure the disclosure is consistent with current public sector accounting, disclosure requirements and industry practice. |

# Key milestones and deliverables

**November 2022 – Risk assessment**

- Perform preliminary risk assessment activities

**November 2022 – Risk assessment & planning**

- Planning meetings with Management
- Preparation of Audit Planning Report to the Committee

**November 2022 – Interim Work**

- Conduct interim fieldwork

**March to April 2023 – Final fieldwork & reporting**

- Conduct year-end audit fieldwork

**May to June 2023 – Reporting**

- Closing meeting with Management
- Presentation of Audit Findings Report to the Committee
- Council approval of consolidated financial statements

**July 2023 – Debrief**

- Debrief discussions

# Appendices

1. Other required communications
2. Newly effective auditing standards
3. Insights to enhance your business
4. Audit and assurance insights

# Appendix 1: Other required communications

## CPAB communication protocol

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 quality inspections conducted over the past year:

- CPAB Audit Quality Insights Report: 2021 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2020 Annual Audit Quality Assessments

# Appendix 2: Newly effective auditing standards

***CAS 315 (Revised) Identifying and Assessing the Risks of Material Misstatement*** has been revised, reorganized and modernized in response to challenges and issues with the previous standard. It aims to promote consistency in application, improve scalability, reduce complexity, support a more robust risk assessment and incorporate enhanced guidance material to respond to the evolving environment, including in relation to information technology. Conforming and consequential amendments have been made to other International Standards on Auditing.

A **risk of material misstatement** exists when there is a reasonable possibility of a misstatement occurring and being material if it were to occur

**Affects both preparers of financial statements and auditors**

**Applies to audits of financial statements for periods beginning on or after 15 December 2021**

**See here for more information from CPA Canada**

**We design and perform risk assessment procedures to obtain an understanding of the:**

- entity and its environment;
- applicable financial reporting framework; and
- entity's system of internal control.

**The audit evidence obtained from this understanding provides a basis for:**

- identifying and assessing the risks of material misstatement, whether due to fraud or error; and
- the design of audit procedures that are responsive to the assessed risks of material misstatement.

# Appendix 2: Newly effective auditing standards (continued)

| Key change | Impact on the audit team | Impact on management |
|---|---|---|
| **Overall, a more robust risk identification and assessment process, including:**<br>• New requirement to take into account how, and the degree to which, 'inherent risk factors' affect the susceptibility of relevant assertions to misstatement<br>• New concept of significant classes of transactions, account balances and disclosures and relevant assertions to help us to identify and assess the risks of material misstatement<br>• New requirement to separately assess inherent risk and control risk for each risk of material misstatement<br>• Revised definition of significant risk for those risks which are close to the upper end of the spectrum of inherent risk | When assessing inherent risk for identified risks of material misstatement, we consider the degree to which inherent risk factors (such as complexity, subjectivity, uncertainty, change, susceptibility to management bias) affect the susceptibility of assertions to misstatement.<br>We use the concept of the spectrum of inherent risk to assist us in making a judgement, based on the likelihood and magnitude of a possible misstatement, on a range from higher to lower, when assessing risks of material misstatement<br>The changes may affect our assessments of the risks of material misstatement and the design of our planned audit procedures to respond to identified risks of material misstatement.<br>If we do not plan to test the operating effectiveness of controls, the risk of material misstatement is the same as the assessment of inherent risk. | If the effect of this consideration is that our assessment of the risks of material misstatement is higher, then our audit approach may increase the number of controls tested and/or the extent of that testing, and/or our substantive procedures will be designed to be responsive to the higher risk.<br>We may perform different audit procedures and request different information compared to previous audits, as part of a more focused response to the effects identified inherent risk factors have on the assessed risks of material misstatement. |

# Appendix 2: Newly effective auditing standards (continued)

| Key change | Impact on the audit team | Impact on management |
|---|---|---|
| **Overall, a more robust risk identification and assessment process, including evaluating whether the audit evidence obtained from risk assessment procedures provides an appropriate basis to identify and assess the risks of material misstatement** | When making this evaluation, we consider all audit evidence obtained, whether corroborative or contradictory to management assertions. If we conclude the audit evidence obtained does not provide an appropriate basis, then we perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis. | In certain circumstances, we may perform additional risk assessment procedures, which may include further inquires of management, analytical procedures, inspection and/or observation. |
| **Overall, a more robust risk identification and assessment process, including performing a 'stand back' at the end of the risk assessment process** | We evaluate whether our determination that certain material classes of transactions, account balances or disclosures have no identified risks of material misstatement remains appropriate. | In certain circumstances, this evaluation may result in the identification of additional risks of material misstatement, which will require us to perform additional audit work to respond to these risks. |

# Appendix 2: Newly effective auditing standards (continued)

| Key change | Impact on the audit team | Impact on management |
|---|---|---|
| **Modernized to recognize the evolving environment, including in relation to IT** | New requirement to understand the extent to which the business model integrates the use of IT.<br><br>When obtaining an understanding of the IT environment, including IT applications and supporting IT infrastructure, it has been clarified that we also understand the IT processes and personnel involved in those processes relevant to the audit.<br><br>Based on the identified controls we plan to evaluate, we are required to identify the:<br>• IT applications and other aspects of the IT environment relevant to those controls<br>• related risks arising from the use of IT and the entity's general IT controls that address them.<br><br>Examples of risks that may arise from the use of IT include unauthorized access or program changes, inappropriate data changes, risks from the use of external or internal service providers for certain aspects of the entity's IT environment or cybersecurity risks. | We will expand our risk assessment procedures and are likely to engage more extensively with your IT and other relevant personnel when obtaining an understanding of the entity's use of IT, the IT environment and potential risks arising from IT. This might require increased involvement of IT audit professionals.<br><br>Changes in the entity's use of IT and/or the IT environment may require increased audit effort to understand those changes and affect our assessment of the risks of material misstatement and audit response.<br><br>Risks arising from the use of IT and our evaluation of general IT controls may affect our control risk assessments, and decisions about whether we test the operating effectiveness of controls for the purpose of placing reliance on them or obtain more audit evidence from substantive procedures. They may also affect our strategy for testing information that is produced by, or involves, the entity's IT applications. |
| **Enhanced requirements relating to exercising professional skepticism** | New requirement to design and perform risk assessment procedures in a manner that is not biased toward obtaining audit evidence that may be corroborative or toward excluding audit evidence that may be contradictory. Strengthened documentation requirements to demonstrate the exercise of professional scepticism. | We may make changes to the nature, timing and extent of our risk assessment procedures, such as our inquires of management, the activities we observe or the accounting records we inspect. |

# Appendix 2: Newly effective auditing standards (continued)

| Key change | Impact on the audit team | Impact on management |
|---|---|---|
| **Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of a control** | We will evaluate the design and implementation of controls that address risks of material misstatement at the assertion level as follows:<br>• Controls that address a significant risk.<br>• Controls over journal entries, including non-standard journal entries.<br>• Other controls we consider appropriate to evaluate to enable us to identify and assess risks of material misstatement and design our audit procedures | We may identify new or different controls that we plan to evaluate the design and implementation of, and possibly test the operating effectiveness to determine if we can place reliance on them.<br><br>We may also identify risks arising from IT relating to the controls we plan to evaluate, which may result in the identification of general IT controls that we also need to evaluate and possibly test whether they are operating effectively. This may require increased involvement of IT audit specialists. |

# Appendix 3: Insights to enhance your business

We have the unique opportunity as your auditors to perform a deeper dive to better understand your business processes that are relevant to financial reporting.

Learn more

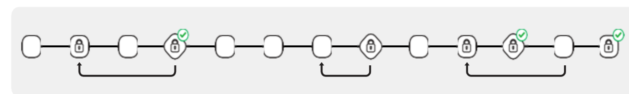
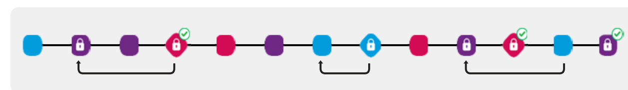
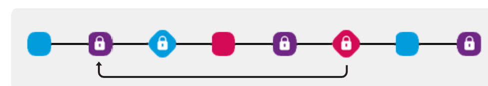
## Lean in Audit

Lean in Audit™ is KPMG's award-winning methodology that offers a new way of looking at processes and engaging people within your finance function and organization through the audit.

By incorporating Lean process analysis techniques into our audit procedures, we can enhance our understanding of your business processes that are relevant to financial reporting and provide you with new and pragmatic insights to improve your processes and controls.

Clients like you have seen immediate benefits such as improved quality, reduced rework, shorter processing times and increased employee engagement.

## How it works

| | | |
|---|---|---|
| **Standard Audit** | Typical process and how it's audited |  |
| **Lean in Audit™** | Applying a Lean lens to perform walkthroughs<br>Typically 95% + is considered redundant through a customer's lens |  |
| **How Lean in Audit helps businesses improve processes** | Make the process more streamlined and efficient for all |  |

**Value:** what customers want **(maximize)**

**Necessary:** required activities **(minimize)**

**Redundant:** non-essential activities **(remove)**

Process controls

Key controls tested

# Appendix 4: 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.

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

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

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

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

**Momentum**
A quarterly newsletter providing curated insights for management, boards and Audit Committees.

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

**Uncertain Times Financial Reporting Resource Centre**
Uncertain times resource center provides insights to support clients facing challenges relating to COVID-19, natural disasters and geopolitical events.

**KPMG Learning Academy**
Technical accounting and finance courses designed to arm you with leading-edge skills needed in today's disruptive environment.

**Environmental, social and governance (ESG)**
Building a sustainable, resilient and purpose-led organization

**Accelerate 2022**
The key issues driving the Audit Committee agenda in 2022

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