

## Request for Decision

### 2019 External Audit Planning Report

Presented To:	Audit Committee
Presented:	Tuesday, Dec 03, 2019
Report Date	Wednesday, Nov 13, 2019
Type:	Presentations

#### Resolution

THAT the City of Greater Sudbury approves the recommendations as outlined in the report entitled "2019 External Audit Planning Report", from the General Manager of Corporate Services, presented at the Audit Committee meeting on December 3, 2019.

#### Relationship to the Strategic Plan / Health Impact Assessment

This report refers to Responsive, Fiscally Prudent, Open Governance: Focus on openness, transparency and accountability in everything we do.

#### Report Summary

The audit planning report contains audit areas and systems that will be reviewed during the external audit, the audit approach and details relating to scope and timing of the audit.

#### Financial Implications

There are no financial implications associated with this report.

#### Signed By

**Report Prepared By**

Christina Dempsey  
Co-ordinator of Accounting  
*Digitally Signed Nov 13, 19*

**Manager Review**

Jim Lister  
Manager of Accounting/Deputy  
Treasurer  
*Digitally Signed Nov 13, 19*

**Division Review**

Ed Stankiewicz  
Executive Director of Finance, Assets  
and Fleet  
*Digitally Signed Nov 15, 19*

**Financial Implications**

Liisa Lenz  
Coordinator of Budgets  
*Digitally Signed Nov 15, 19*

**Recommended by the Department**

Kevin Fowke  
General Manager of Corporate  
Services  
*Digitally Signed Nov 18, 19*

**Recommended by the C.A.O.**

Ed Archer  
Chief Administrative Officer  
*Digitally Signed Nov 20, 19*



# City of Greater Sudbury

**Audit Planning Report for the  
Year Ended December 31, 2019**

*KPMG LLP*

December 3<sup>rd</sup>, 2019

[kpmg.ca/audit](http://kpmg.ca/audit)



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The contacts  
at KPMG in  
connection  
with this report  
are:



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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 for conditional funding sources;
- Employee-related liabilities and management estimates;
- Taxation appeals; and
- Capital expenditures.

See pages 4 - 7



## Audit materiality

Materiality has been determined based on total revenues for the preceding fiscal year. This benchmark is consistent with prior years.

Materiality for planning purposes has been established at \$12.5 million, representing 2% of the preceding year's revenues.

Our audit misstatement posting threshold has been set at 5% of materiality, or \$625,000. This is the level at which audit differences will be reported to the Audit Committee.

See page 9



## Independence and quality control

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services provided by KPMG.

This Audit Planning 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 Planning Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.





# Audit Risks



## Significant Financial Reporting Risks


Revenue recognition for conditional funding sources

## Why is it significant?

The City receives funding under a number of Provincial and Federal programs, some of which have criteria for revenue recognition (e.g. amount of costs incurred). This provides a potential risk if the criteria for revenue recognition are not met.



## Our audit approach

- 
- We will review management's calculation of revenues and identified revenues that are conditional in nature. 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 associated balance sheet accounts, specifically funding overpayments. For significant amounts of unearned revenue, 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 balance sheet 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 Risks


Employee-related liabilities and management estimates

## Why is it significant?

The City is exposed to bargaining for expired collective agreements and employee benefit obligations that can be both significant from a financial statement perspective and subjective with respect to their determination, requiring assumptions and estimates on the part of management.



## Our audit approach

- 
- We will perform the necessary audit procedures over management's estimates with respect to employee-related liabilities, including assessing the reasonableness of key assumptions, performing a retrospective review of prior year's estimates and substantively testing data used for the purposes of arriving at the estimate.
  - We will assess our ability to rely on management's experts involved in the quantification of employee future benefits, assess the reasonableness of key assumptions, perform certain procedures over data inputs and review the actuarial report in detail.
  - We will review the financial statement presentation, including note disclosure, relating to employee-related liabilities to ensure it is appropriate and contains, at a minimum, the required disclosures under Canadian financial reporting standards.



# Audit Risks



## Significant Financial Reporting Risks


Potential liabilities arising from assessment appeals.

## Why is it significant?

Municipalities are exposed to potential liabilities with respect to assessment appeals, which often involve multiple years and require management to make estimates of the potential exposure.



## Our audit approach

- 
- We will perform the necessary audit procedures over management's estimates with respect to assessment appeals, including assessing the reasonableness of key assumptions, performing a retrospective review of prior year's estimates and substantively testing data used for the purposes of arriving at the estimate.
  - We will review information relating assessment appeals as provided by the Online Property Tax Analysis ("OPTA").
  - We will assess our ability to rely on management's experts involved in the quantification of potential tax refunds related to assessment appeals, assess the reasonableness of key assumptions, perform certain procedures over data inputs and review the report in detail.



# Audit Risks



## Significant Financial Reporting Risks


Capital expenditures

## Why is it significant?

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 (i.e. do they represent a betterment or repair and maintenance).



## 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 Risks



## Other risks

- Contravention of procurement policies
- Contravention of travel and expense reimbursement policies
- Internal control weaknesses in immaterial revenue or expense streams
- Process inefficiencies
- Exposure to cybersecurity risks

## Why is this considered?

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.



## Our audit approach

- 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 select two transaction streams (one revenue, one expense) that, by virtue of their size, would not normally be subjected to audit procedures. For these transaction streams, we will document the City's internal processes, provide our comments as to potential efficiency opportunities and perform selected audit procedures over a sample of transactions.
- We will utilize Data and Analytics to provide insight into the City's disbursements and journal entry processing and identify opportunities for potential efficiencies.
- We will undertake LEAN-in-Audit process mapping of two processes to identify potential internal control weaknesses and opportunities for efficiency enhancements.
- We will conduct a high-level screen of the City's exposure to potential cybersecurity risks and its capacity to respond to potential cyber attacks

# Materiality

## Materiality Benchmark

Total revenues

**\$623 Million**

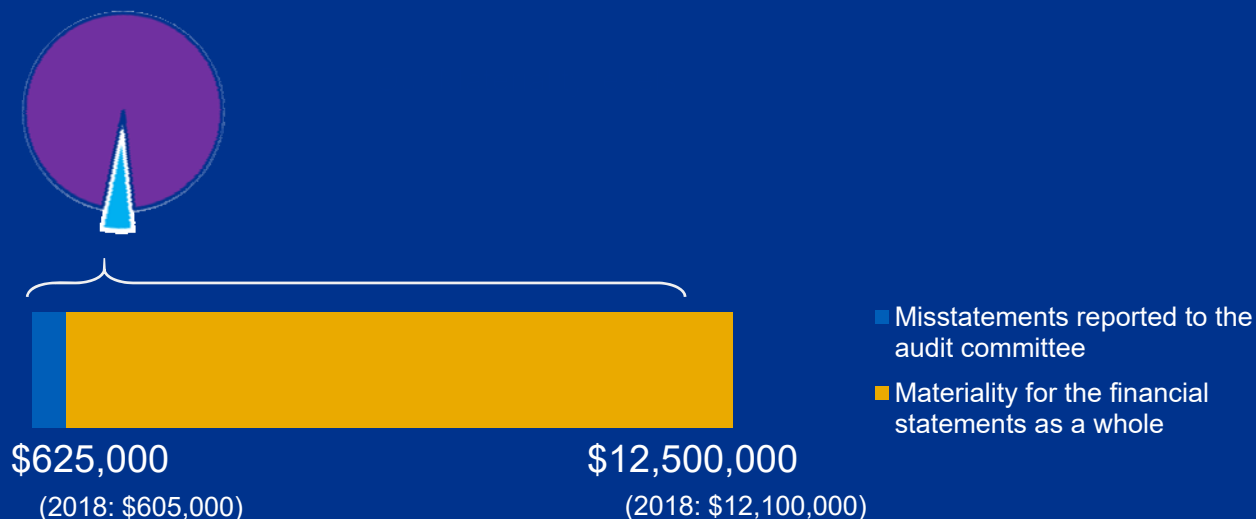
(2018: \$605 Million)

## Materiality

**\$12.5 million**

2% of revenue

(2018: \$12.1 million, 2% of revenue)



The misstatement threshold for reclassification misstatement is \$3.0 million (2018: \$3.0 million). This is the amount above which we will report audit differences that do not impact the City's reporting operating surplus (e.g. adjustments only affecting the statement of financial position).

Materiality represents the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

We will report:



Corrected audit misstatements

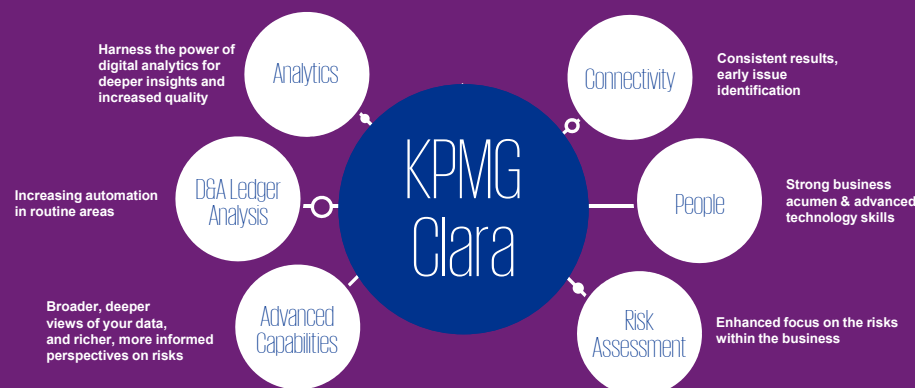


Uncorrected audit misstatements

# The audit of today, tomorrow & the future

As part of KPMG's technology leadership, our audit practice has developed technologies and alliances to continuously enhance our capabilities and deliver an exceptional audit experience.

Technology empowers us with deep analysis over your financial information, focusing our effort and interactions on the areas of greatest risk and minimizing disruption to your business.



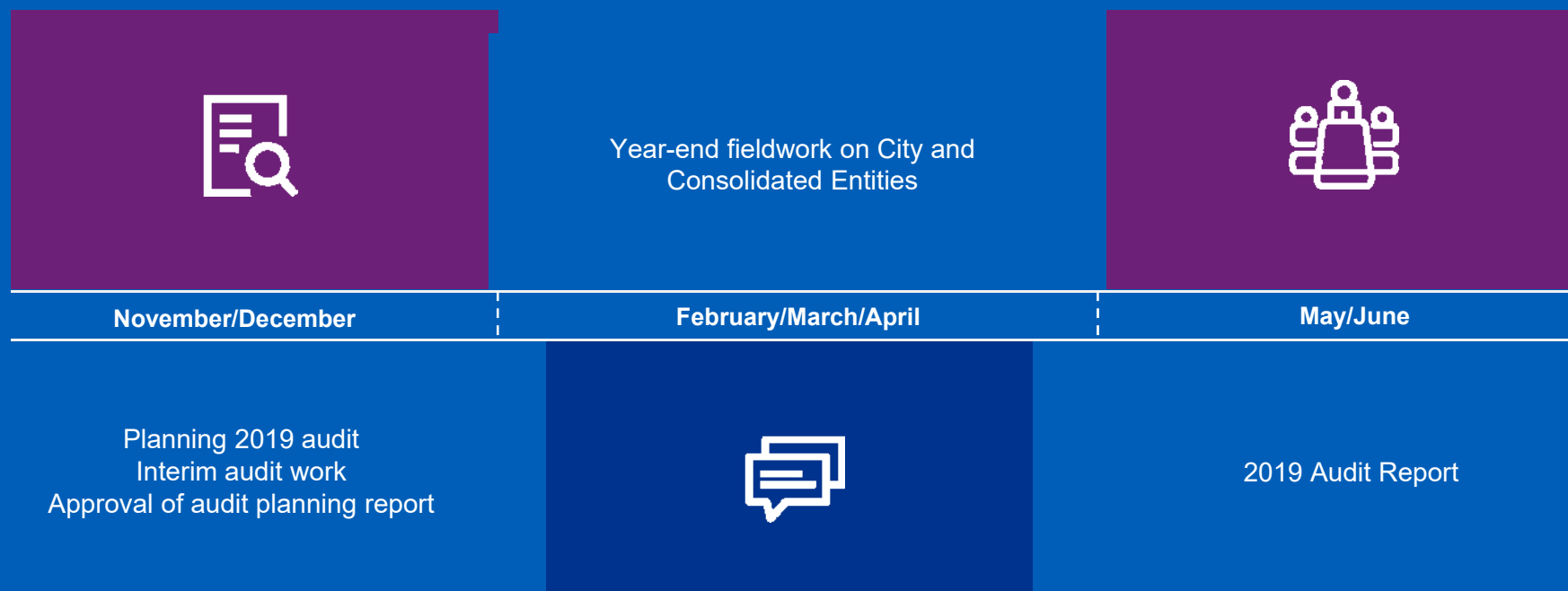
## Technology we use today

Tool	Benefit to audit
KPMG Clara Collaboration	KCCC is our secure audit platform and a one-stop shop through which we plan, execute and manage the audit, providing you with real-time access to the process at every step, including exchange of information and access to the real-time reporting you need in one central location.
Journal Entry Analysis	Our journal entry tool assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.

We continue to make significant investments in enhanced methodologies, new technologies and strategic alliances with leading technology companies that can have a transformative impact on auditing, and more broadly, financial reporting. KPMG is investing in the development of innovative audit technologies through both internal solutions and through alliances with technology firms such as Finger Food, Microsoft, IBM Watson and others. We are committed to investing in cognitive technology to develop external auditing tools and technologies. Cognitive technology will enable us to teach a machine how to perceive, reason, and learn like a human being. This will be transformative to our profession, and will directly benefit the City of Greater Sudbury now and in the future.

We are developing intelligent automation to enable programmed reviews of unstructured data in source documents; freeing our professionals to focus their efforts on areas of greater risk. This may sound simple, but it's actually quite powerful, with complex underlying technologies.

# Key deliverables and milestones



# Proposed fees



In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above.

Our fee analysis is based on our proposal document dated July 19, 2016 and subsequent extension and has been reviewed with and agreed upon by management.

Our fees are as follows:

	Current period (budget)	Prior period (actual)
Audit of the consolidated financial statements	\$95,790	\$93,000



# Current developments and audit trends

Please visit KPMG's [Audit Committee Institute \(ACI\) / Current Developments](#) page for current developments in IFRS, Canadian securities matters, Canadian auditing other professional standards and US accounting, auditing and regulatory matters. The following is a summary of the current developments that are relevant to the Company:

Standard	Summary and implications	Reference
Restructuring Transactions	<ul style="list-style-type: none"><li>• Provides accounting and financial reporting guidance for restructuring transactions, which may include amalgamation, transfers of operations between organizations and shared service arrangements</li><li>• Restructuring transactions cannot involve consideration based on fair market value</li><li>• Applicable for fiscal years beginning on or after April 1, 2018</li><li>• Based on discussions with management, we do not anticipate that this section will be relevant to the City's financial statements for the year ended December 31, 2019</li></ul>	PSAB Section 3430

# Appendices

Appendix 1: Audit quality and risk management

Appendix 2: KPMG's audit approach and methodology

Appendix 3: Required Communications

# Appendix 1: 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 summarises the six key elements of our quality control systems. Visit our [Audit Quality Resources](#) page for more information including access to our audit quality report, *Audit quality: Our hands-on process*.

Other controls include:

- Before the firm issues its audit report, Engagement Quality Control
- Reviewer reviews the appropriateness of key elements of publicly listed client audits.
- Technical department and specialist resources provide real-time support to audit teams in the field.

We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.

We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.

We do not offer services that would impair our independence.



All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.

The processes we employ to help retain and develop people include:

- Assignment based on skills and experience;
- Rotation of partners;
- Performance evaluation;
- Development and training; and
- Appropriate supervision and coaching.

We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.

Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

# Appendix 2: KPMG's audit approach and methodology

Next year we will expand our use of technology in our audit through our new smart audit platform, KPMG Clara.

## Collaboration in the audit

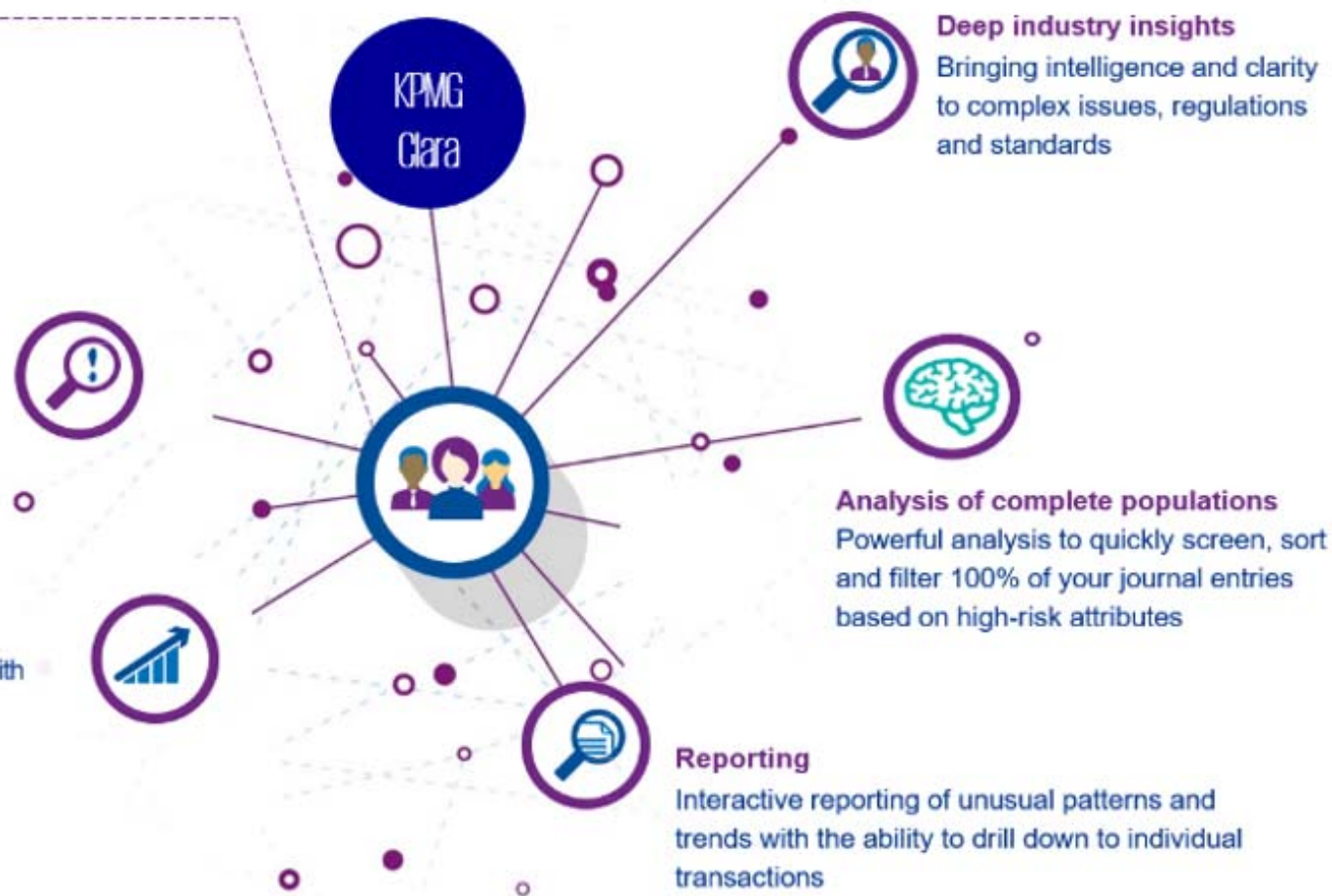
A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team

## Issue identification

Continuous updates on audit progress, risks and findings before issues become events

## Data-driven risk assessment

Automated identification of transactions with unexpected or unusual account combinations — helping focus on higher risk transactions and outliers



# Appendix 3: 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:



## Engagement letter

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 and any subsequent amendment letters. In accordance with professional standards, copies of the engagement letter and any subsequent amendments will be provided to the Audit Committee annually.



## Management representation letter

We will obtain from management certain representations at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Audit Committee.



## Audit planning report

The audit planning report will be presented to Audit Committee on December 3, 2019.



## Audit findings report

At the completion of our audit, we will provide a report to the Audit Committee



## Required inquiries

Professional standards require that during the planning of our audit we obtain your views on risk of fraud and other matters. We make similar inquiries to management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly



## Annual independence letter

At the completion of our audit, we will provide a letter to the Audit Committee





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