

Presented To:	Audit Committee
Presented:	Monday, Jul 06, 2020
Report Date	Monday, Jun 22, 2020
Type:	Presentations

For Information Only

2019 Audit Findings Report

Resolution

For Information Only

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

Audit standards require auditors to communicate specific information to an Audit Committee. The City's external auditors will be presenting their findings and statutory communications for the 2019 year-end.

Financial Implications

There are no financial implications associated with this report.

Signed By

Report Prepared By

Christina Dempsey
Co-ordinator of Accounting
Digitally Signed Jun 22, 20

Manager Review

Jim Lister
Manager of Accounting/Deputy
Treasurer
Digitally Signed Jun 22, 20

Division Review

Ed Stankiewicz
Executive Director of Finance, Assets
and Fleet
Digitally Signed Jun 22, 20

Financial Implications

Steve Facey
Manager of Financial Planning &
Budgeting
Digitally Signed Jun 22, 20

Recommended by the Department

Kevin Fowke
General Manager of Corporate
Services
Digitally Signed Jun 23, 20

Recommended by the C.A.O.

Ed Archer
Chief Administrative Officer
Digitally Signed Jun 24, 20

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 2019 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 2019 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, 2019

July 7, 2020

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, 2019. This Audit Findings Report builds on the Audit Plan we presented to the audit committee.

Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you. We were able to complete our year-end audit fieldwork remotely during the current state of emergency and are appreciative of the assistance provided by your staff.

Finalizing the Audit

As of June 9, 2020, 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
- Obtaining evidence of City 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.

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.

Executive summary

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.

Uncorrected differences

No uncorrected audit differences were identified as a result of our audit procedures.

Control deficiencies

Our audit procedures did not identify any instances of non-compliance with the City's system of internal controls.

Other observations

We have undertaken a high level analysis of the City's potential cybersecurity risk exposures and have provided a separate report to management. We have also discussed the following matters with management during the course of the audit:

- Potential HST risk exposures
- Best practices for changing banking information
- Best practices for conflict of interest policies

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).

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

Employee-related liabilities and management estimates

Significant financial reporting risk

The potential exists for misstatements in liabilities relating to employee-related matters, including pay equity, grievances and arbitration, unsettled contracts, termination benefits and other personnel matters.

Our response and significant findings

- We have reviewed management's calculations with respect to employee banks (sick, vacation, OT) and have performed substantive audit procedures to assess the reasonableness of the recorded liabilities.
- We have reviewed the basis for management's estimates relating to employee-related liabilities and assessed the appropriateness of the underlying assumptions.
- We have assessed our ability to rely on the City's actuarial expert for the purposes of determining the amount of post-employment benefits 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 employee-related liabilities for communication to the Audit Committee.

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 to assess the appropriate classification of the expenditure (capitalization vs. expense).
- We have tested a sample of repairs and maintenance expenses to identify items that could potentially qualify for capitalization as opposed to expense.
- We have tested a sample of capital asset dispositions, including the accuracy of the reported gain or loss on disposition.
- We have assessed the extent of potential indicators of an impairment in capital assets and the requirement for an impairment provision.

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

Audit risks and results

Relevant factors affecting our risk assessment

Complexity



Estimate



4 Significant Risk

Provision for assessment appeals and uncollectible taxes

Significant financial reporting risk

The potential exists for misstatements in provisions for taxation appeals, which often involve multiple years under appeal and require management to make estimates as to the City's potential exposure.

Our response and significant findings

- We have reviewed the aged listing of taxes receivable to identify instances where the assessed value of a property is less than the balance of taxes outstanding, indicating the potential requirement for a tax provision.
- We have compared management's calculation of the tax provision to the OPTA Assessment at Risk report in order to determine the adequacy of the City's tax provision.
- We have reviewed settlement of assessment appeals from prior years against the City's previous tax provision in order to determine the accuracy of the City's process for estimating tax provision.

Based on our audit procedures, we did not identify any audit misstatements relating to the provision for assessment appeals and uncollectible taxes 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 procurements to assess compliance with the City's procurement policy.
- We have tested a sample of expense reports for members of City Council and the City's management team to assess compliance with the City's policies for travel and expense reimbursement.

Based on the procedures performed, we did not identify any instances of non-compliance with the City's policies.

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	<p>The form, arrangement and content of the financial statements is consistent with the prior year and best/common practice for Ontario municipalities.</p> <p>The financial statements include note disclosure related to the current pandemic as a subsequent event.</p>
Application of accounting pronouncements issued but not yet effective	<p>There are no concerns at this time regarding future implementation of accounting pronouncements issued by not yet effective.</p>

Other matters

Professional standards require us to communicate to the audit committee Other Matters, such as material inconsistencies or material misstatements between MD&A and the audited financial statements, identified fraud or non-compliance with laws and regulations, consultations with other accountants, significant matters relating to the Company'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.

The results of our audit procedures have not identified any uncorrected differences about 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.

During the course of our audit, we did not identify any weaknesses in internal control over financial reporting.

Appendices

Content

Appendix 1: Required communications

Appendix 2: Audit Quality and Risk Management

Appendix 3: Key Audit Matters – Identification



Appendix 1: Required Communications

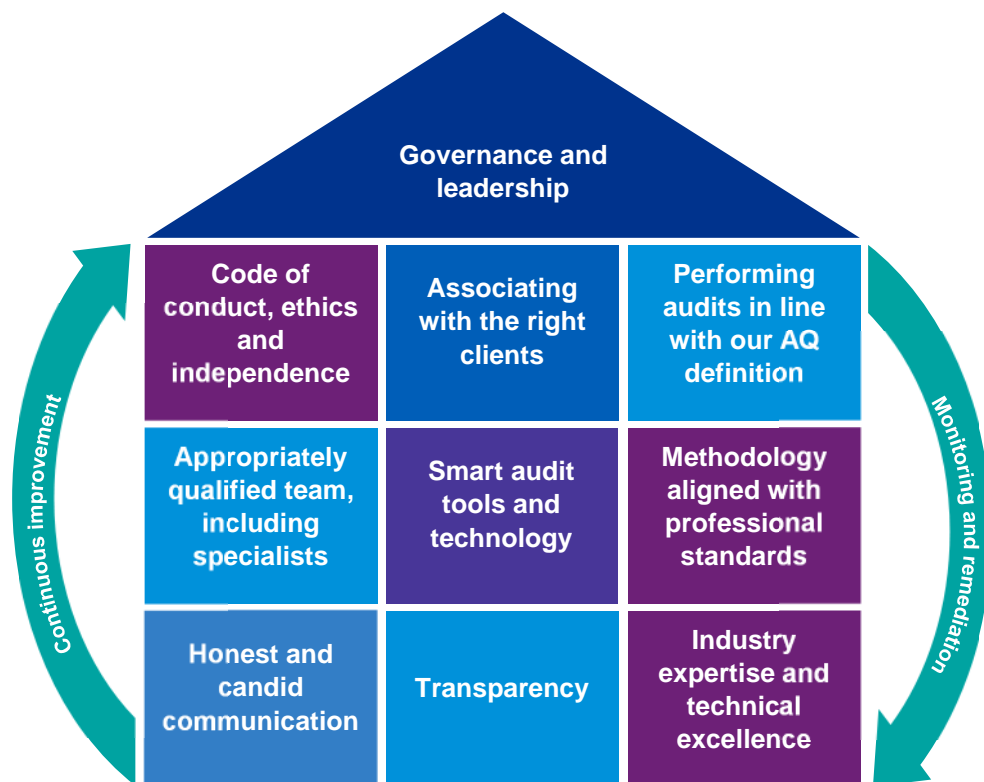
In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

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 is provided under separate cover.
Annual independence letter	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.



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 audit 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.

