

| | |
|---------------|-----------------------|
| Presented To: | Audit Committee |
| Presented: | Tuesday, Sep 15, 2020 |
| Report Date | Monday, Aug 24, 2020 |
| Type: | Presentations |

Request for Decision

2020 External Audit Planning Report

Resolution

THAT the City of Greater Sudbury approves the 2020 External Audit Plan as outlined in the report entitled "2020 External Audit Planning Report", from the General Manager of Corporate Services, presented at the Audit Committee meeting on September 15, 2020.

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 Aug 24, 20

Manager Review

Jim Lister
Manager of Accounting/Deputy
Treasurer
Digitally Signed Aug 24, 20

Division Review

Ed Stankiewicz
Executive Director of Finance, Assets
and Fleet
Digitally Signed Aug 28, 20

Financial Implications

Steve Facey
Manager of Financial Planning &
Budgeting
Digitally Signed Aug 28, 20

Recommended by the Department

Kevin Fowke
General Manager of Corporate
Services
Digitally Signed Aug 28, 20

Recommended by the C.A.O.

Ed Archer
Chief Administrative Officer
Digitally Signed Aug 28, 20

Background

In accordance with generally accepted auditing standards, an annual audit plan must be approved by the Audit Committee. The objective of the audit plan is to identify audit areas and systems that will be reviewed during the external audit, explain the audit approach to be used, provide information with respect to the scope and timing of the audit and identify specific issues for the year under review.

Our external auditors will be presenting an over view of their External Audit Planning Report with respect to the 2020 year-end. The full External Audit Planning Report is attached.

Oscar Poloni from KPMG will be presenting the External Audit Planning Report. The purpose of the presentation is to provide information to the Audit Committee relating to the activities of the City External Auditors in discharging their audit responsibilities.

City of Greater Sudbury

Audit Planning Report
for the year ended December 31, 2020

KPMG LLP

September 15, 2020

kpmg.ca/audit



Table of contents

| | |
|---|-----------|
| EXECUTIVE SUMMARY | 2 |
| COVID-19: EMBEDDING RESILIENCE & READINESS | 3 |
| AUDIT RISKS | 4 |
| MATERIALITY | 9 |
| AUDIT QUALITY AND TRANSPARENCY | 11 |
| KEY DELIVERABLES AND MILESTONES | 12 |
| NEW AUDIT STANDARDS | 13 |
| PROPOSED FEES | 15 |
| APPENDICES | 16 |
| APPENDIX 1: REQUIRED COMMUNICATIONS | 17 |
| APPENDIX 2: AUDIT AND ASSURANCE INSIGHTS | 18 |

Executive summary

COVID-19

COVID-19 continues to have an impact to the City's operations and financial reporting, as well as our audit procedures.

See page 3.

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
- Assessing the risk that management estimates for financial statement amounts may be adversely impacted by COVID-19

See page 4 to 8.

Audit materiality

Materiality has been determined to be \$13 million, based on the prior year's reported revenues of \$654 million.

See pages 9.

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 11.

Proposed fees

Proposed fees for the annual audit of the City's financial statements are \$98,660, with additional fees relating to the audit of components and special reports amounting to \$23,860.

See page 15.

Current developments and audit trends

Please refer to page 13 for auditing changes relevant to the City

This Audit Planning Report should not be used for any other purpose or by anyone other than the Audit Committee, City Council, and Management of the Entity. 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.

COVID-19: Embedding Resilience & Readiness

COVID-19 continues to have an impact to the Entity's business and the Entity's financial reporting. Please refer to our [COVID-19 Financial Reporting](#) site for further information.

| Potential financial reporting implications | Potential implications on internal control over financial reporting |
|--|---|
| <ul style="list-style-type: none"> Accounting for COVID-19 related grants and associated revenue recognition criteria Financial impacts arising from operational changes from COVID-19 | <ul style="list-style-type: none"> Consideration of changes in the individuals performing the control due to changes in work arrangements Consideration of the appropriateness of segregation of duties arising from changes in work arrangements Reconsideration of internal control over financial reporting impacts related to broader IT access given remote work arrangements |
| Potential financial reporting implications related to disclosures | Other potential considerations |
| <ul style="list-style-type: none"> New accounting policies implemented as a result of COVID-19 Significant management judgements in applying accounting policies Major sources of estimation uncertainty that have significant risk | <ul style="list-style-type: none"> Reporting material changes in internal control over financial reporting Cyber security risks (e.g., wire transfers schemes) |

Similarly, COVID-19 is a major consideration in the development of our audit plan for your 2020 financial statements.

| Planning and Risk Assessment | Executing |
|---|---|
| <ul style="list-style-type: none"> Understanding the expected impact on the relevant metrics for determining materiality (including the benchmark) and the implication of that in identifying the risks of material misstatement, responding to such risks and evaluating uncorrected misstatements Understanding the potential financial reporting impacts, the changes in Entity's environment, and changes in the entity's system of internal control, and their impact on our: <ul style="list-style-type: none"> identified and assessed risks of material misstatement audit strategy, including the involvement of others and the nature, timing and extent of tests of controls and substantive procedures | <ul style="list-style-type: none"> Continued use of remote auditing and reliance on collaboration tools and electronic evidence Timing of procedures may need to change |

Audit risks

| Significant financial reporting risk | Why is it significant? |
|--|--|
| <p>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).</p> | <p>Grant revenues represent a major component of the City's revenues, accounting for 28% of reported revenues in the prior year.</p> |
| Our audit approach | |
| <ul style="list-style-type: none">– We will review management's calculation of revenues and identified revenues that are conditional in nature, including new funding programs 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. In addition, Canadian Auditing Standards for management estimates have changed, requiring an increase in audit procedures relating to management estimates. This includes enhanced risk assessment procedures and a comprehensive objectives-based work effort for supporting data and assumptions. |

Our audit approach

Our audit approach will reflect the requirements of the new 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

Prior to the commencement of our audit procedures, we will meet with management to discuss the new audit requirements associated with management estimates and the impact on our audit procedures, including new analysis and documentation required from the City.

Audit risks

Significant financial reporting risk

Accounting for capital expenditures requires the determination as to whether the item constitutes a betterment or an expense.

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.

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

Audit risks

| Significant financial reporting risk | Why is it significant? |
|--|--|
| <p>The City may experience an increase in property assessment appeals or taxpayers experiencing difficulties with respect to payment of property taxes due to COVID-19. As a result, the City's traditional allowance for doubtful accounts or provisions for property tax appeals may need to be reviewed in the context of COVID-19.</p> | <p>The impacts of COVID-19 continue to emerge and evolve, which may result in an increase in collection risk for the City.</p> |
| Our audit approach | |
| <ul style="list-style-type: none">– We will perform the necessary audit procedures as required for testing of management estimates– As part of our audit procedures, we will assess the sufficiency of the City's provision for assessment appeals to assessment at risk data provided by the Ontario Property Tax Analysis ("OPTA"). We will also identify the extent to which other municipalities have revised their approach to determine allowance for doubtful accounts and provisions for taxation appeals | |

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 a high-level screen of the City's enterprise risk management processes to assess the effective of its processes for the identification and mitigation of risks
- We will provide the City with respect to best practices for the response to cybersecurity incidents, the intention of which are to reduce the City's overall risk exposure from a data and privacy perspective

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 | <p>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.</p> <p>The corresponding amount for the prior year's audit was \$12,100,000.</p> <p>We have considered potential changes to materiality as a result of COVID-19 and have determined that no adjustments are required. As part of our audit process, we will reassess the appropriateness of our audit materiality in order to reflect financial reporting and audit implications of COVID-19.</p> | \$13.0 million |
| Benchmark | Materiality is calculated at 2% of the prior year's revenue, which is consistent with the prior year. | \$654 million |

We will report to the Audit Committee:



Corrected audit misstatements



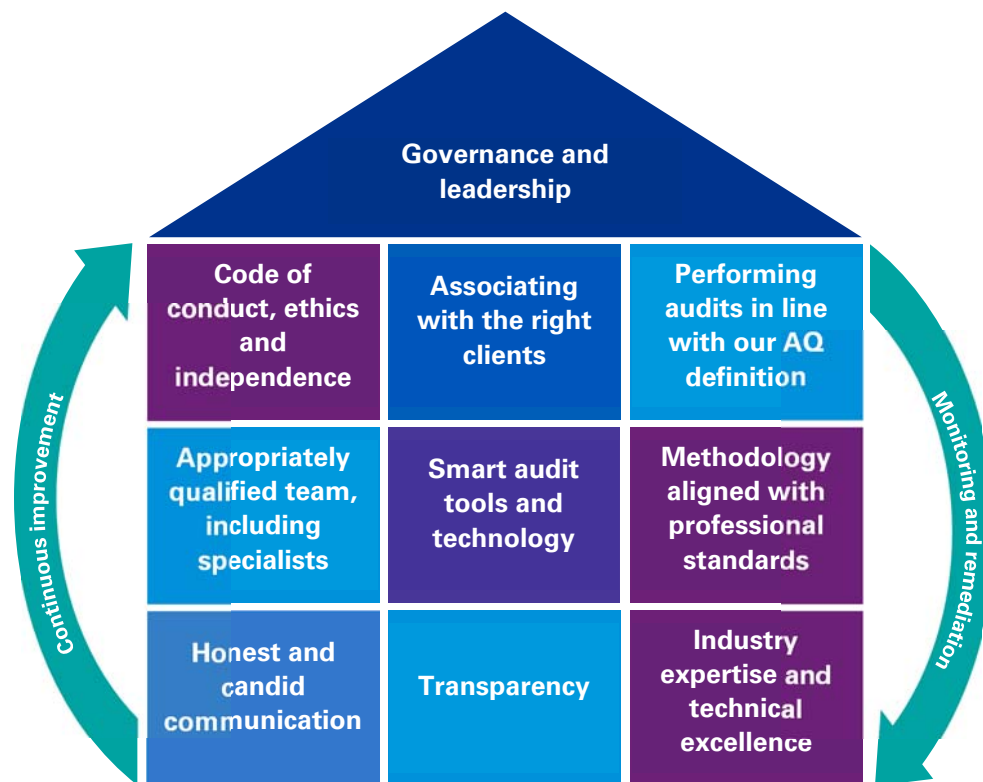
Uncorrected audit misstatements

Audit Quality Matters



Audit quality and transparency

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.

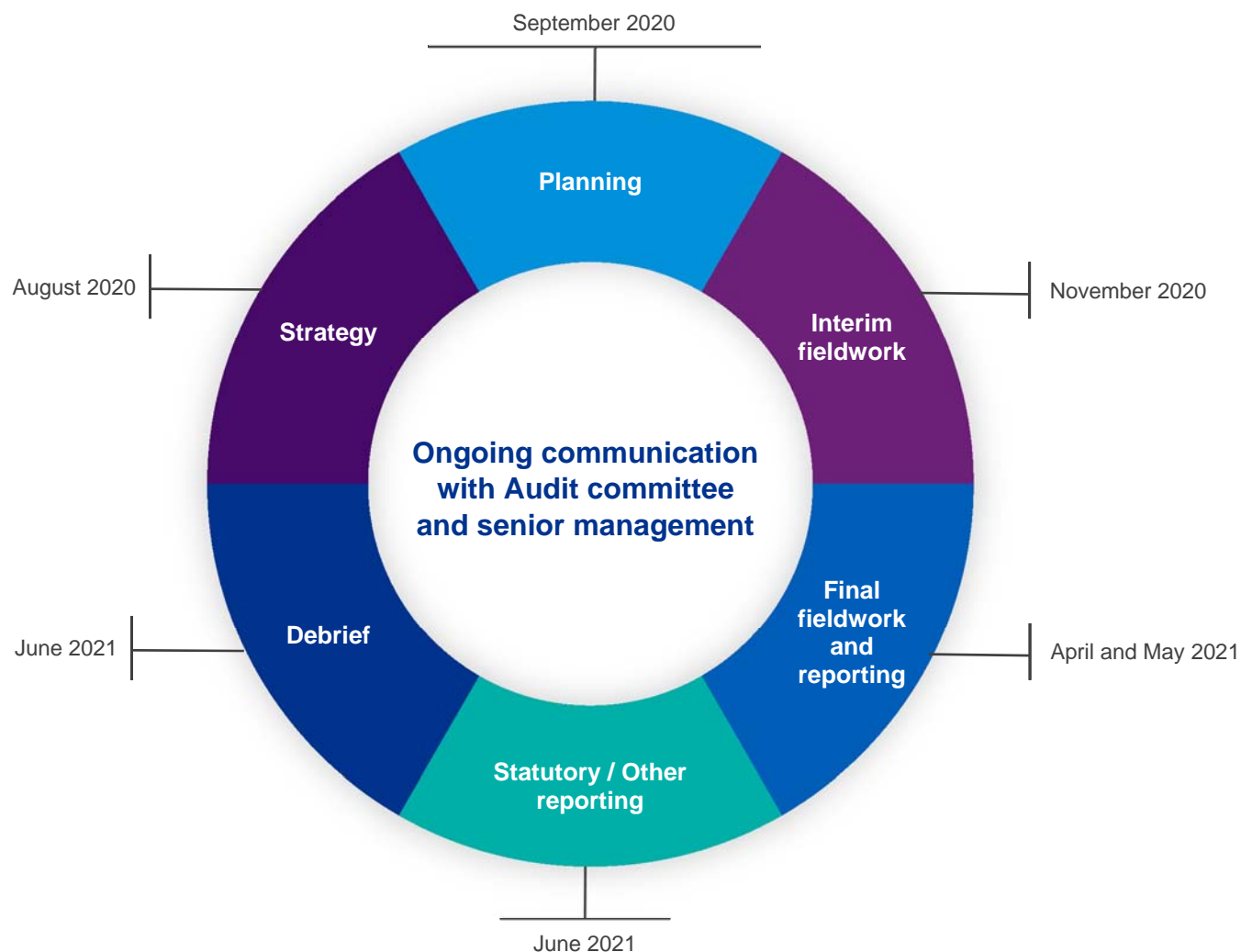
We believe that it is not just about reaching the right opinion, but how we reach that opinion.

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](#).

Key deliverables and milestones



New audit standards

New auditing standards that are effective for the current year are as follows:

| Standard | Key observations | Reference |
|---|--|--|
| CAS 540, Auditing Accounting Estimates and Related Disclosures Effective for audits of Entities with year-ends on or after December 15, 2020 | Expected impact on the audit: <ul style="list-style-type: none">— more emphasis on the need for exercising professional skepticism— more granular risk assessment to address each of the components in an estimate (method, data, assumptions)— more granular audit response designed to specifically address each of the components in an estimate (method, data, assumptions)— more focus on how we respond to levels of estimation uncertainty— more emphasis on auditing disclosures related to accounting estimates— more detailed written representations required from management | CPA Canada Client Briefing |

Independence Matters



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 has been reviewed with and agreed upon by management.

Our fees are estimated as follows:

| | Current period (budget) | Prior period (actual) |
|---|----------------------------|--------------------------|
| Audit of the financial statements – City of Greater Sudbury | \$98,660 | \$95,790 |
| Audit of component financial statements and special reports | \$23,860 | \$23,175 |

Appendices

Content

Appendix 1: Required communications

Appendix 2: Audit and Assurance Insights



Appendix 1: Required communications

| | |
|--|--|
| Report | Engagement terms |
| <p>A draft report will be provided at the completion of the audit.</p> | <p>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.</p> |
| Reports to the Audit Committee | Representations of management |
| <p>At the completion of the audit, we will provide our findings report to the Audit Committee.</p> | <p>We will obtain from management certain representations at the completion of the audit.</p> |
| Matters pertaining to independence | Internal control deficiencies |
| <p>At the completion of our audit, we will confirm our independence with the Audit Committee.</p> | <p>Other control deficiencies, identified during the audit, that do not rise to the level of a significant deficiency will be communicated to management.</p> |
| Required inquiries | Audit Quality |
| <p>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.</p> | <p>The following links are external audit quality reports for referral by the Audit Committee:</p> <ul style="list-style-type: none"> • CPAB Audit Quality Insights Report: 2019 Annual Inspections Results • CPAB Audit Quality Insights Report: 2019 Fall Inspection Results |

Appendix 2: Audit and Assurance Insights

Our latest thinking on the issues that matter most to Audit Committees, Boards and Management.

| Featured insight | Summary | Reference |
|--|--|------------------------------------|
| Audit & Assurance Insights | Curated thought leadership, research and insights from subject matter experts across KPMG in Canada | <u>Learn more</u> |
| The business implications of coronavirus (COVID 19) | Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat. | <u>Learn more</u> |
| | Financial reporting and audit considerations: The impact of COVID-19 on financial reporting and audit processes. | <u>Learn more</u> |
| | KPMG Global IFRS Institute - COVID-19 financial reporting resource center | <u>Learn more</u> |
| Accelerate 2019/20 | Perspective on the key issues driving the Audit Committee agenda | <u>Learn more</u> |
| IFRS Breaking News | A monthly Canadian newsletter that provides the latest insights on international financial reporting standards and IASB activities. | <u>Learn more</u> |
| Momentum | A quarterly Canadian newsletter which provides a snapshot of KPMG's latest thought leadership, audit and assurance insights and information on upcoming and past audit events – keeping management and board members abreast on current issues and emerging challenges within audit. | <u>Sign-up now</u> |
| Current Developments | Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US | <u>Learn more</u> |
| Board Leadership Centre | Leading insights to help board members maximize boardroom opportunities. | <u>Learn more</u> |



kpmg.ca/audit



KPMG LLP, an Audit, Tax and Advisory firm (kpmg.ca) and a Canadian limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International Cooperative ("KPMG International").

KPMG member firms around the world have 174,000 professionals, in 155 countries.

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss entity. Each KPMG firm is a legally distinct and separate entity, and describes itself as such.

© 2020 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

