

Presented To:	Audit Committee
Presented:	Tuesday, Jan 22, 2019
Report Date	Thursday, Jan 03, 2019
Type:	Presentations

Request for Decision

2018 External Audit Planning Report

Resolution

THAT the City of Greater Sudbury approves the 2018 External Audit Plan as outlined in the report entitled "2018 External Audit Planning Report" from the General Manager of Corporate Services, presented at the Audit Committee meeting on January 22, 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 Jan 3, 19

Manager Review

Lorraine Laplante
Manager of Accounting
Digitally Signed Jan 3, 19

Division Review

Ed Stankiewicz
Executive Director of Finance, Assets
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Financial Implications

Jim Lister
Manager of Financial Planning and
Budgeting
Digitally Signed Jan 3, 19

Recommended by the Department

Kevin Fowke
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Digitally Signed Jan 7, 19

Recommended by the C.A.O.

Ed Archer
Chief Administrative Officer
Digitally Signed Jan 9, 19

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 2018 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, 2018**

KPMG LLP

January 22, 2019

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 \$12.1 million, representing 2% of the preceding year's revenues.

Our audit misstatement posting threshold has been set at 5% of materiality, or \$605,000. This is the level at which audit differences will be reported to the Audit Committee.

See page 8



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 a number of employee-related liabilities (employee grievances, unsettled contracts) 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

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 identify opportunities for potential efficiencies.

Materiality

Materiality Benchmark

Total revenues

\$605 Million

(2017: \$556 Million)

Materiality

\$12.1 million

2% of revenue

(2017: \$11.1 million, 2% of revenue)



- Misstatements reported to the audit committee
- Materiality for the financial statements as a whole

The misstatement threshold for reclassification misstatement is \$3.0 million (2017: \$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

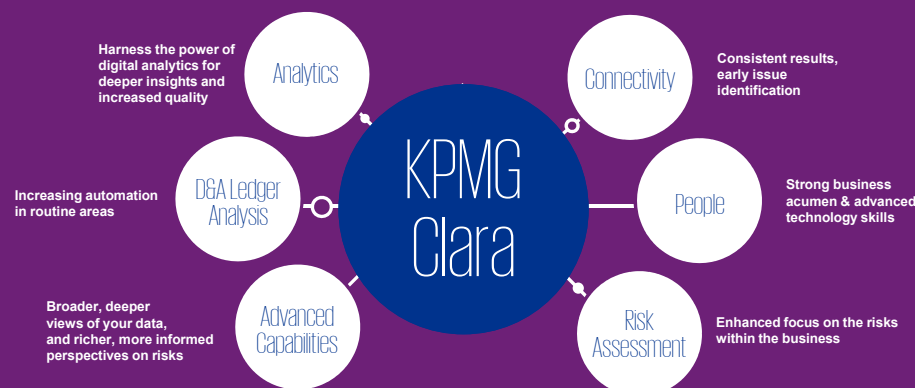


Uncorrected audit misstatements

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.



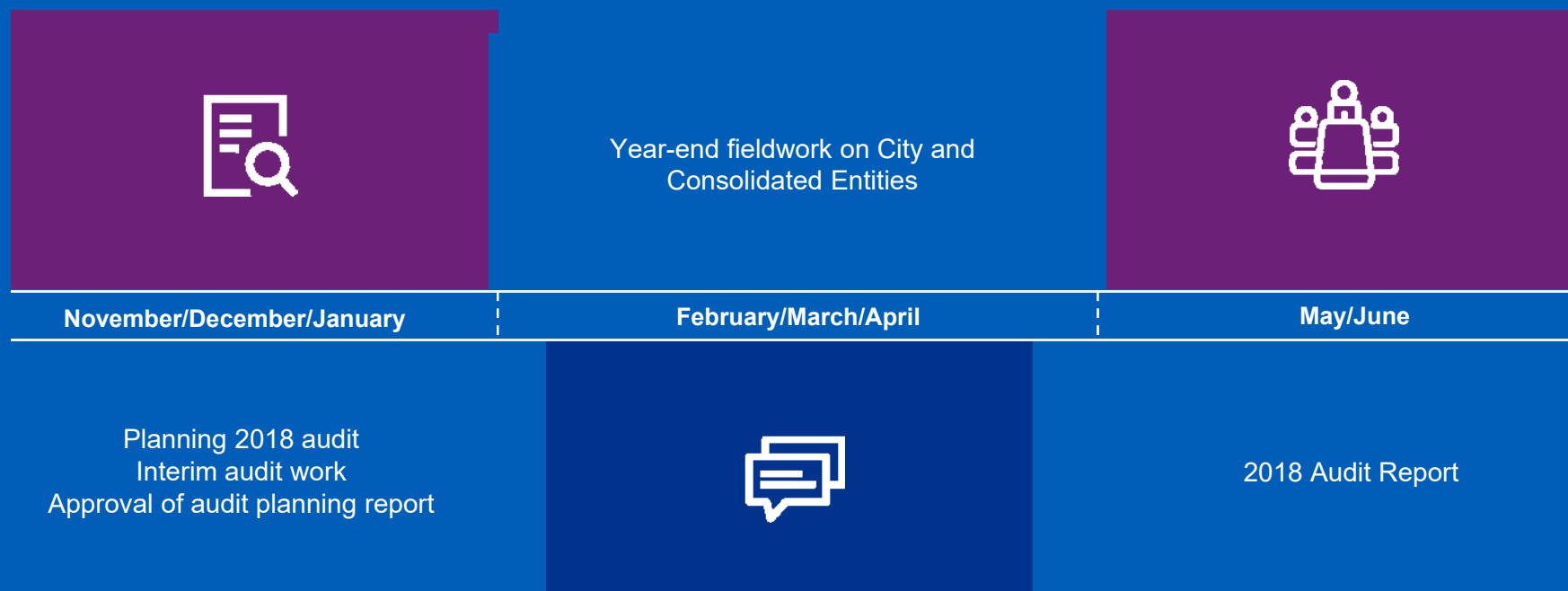
Technology we use today

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 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	\$93,000	\$90,000

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">• Provides accounting and financial reporting guidance for restructuring transactions, which may include amalgamation, transfers of operations between organizations and shared service arrangements• Restructuring transactions cannot involve consideration based on fair market value• Applicable for fiscal years beginning on or after April 1, 2018	PSAB Section 3430 (attached)

The 2018 Auditors' Report



Highlights of changes to your 2018 auditors' report

Re-ordering of the auditors' report including moving opinion to the first section

Expanded descriptions of management's, including those related to assessing the Entity's ability to continue as a going concern

New description of responsibilities of those charged with governance

Expanded descriptions of management's, those charged with governance and auditors' responsibilities

Disclosure of name of the engagement partner



Key audit matter reporting

Communicating the key audit matters (KAMs) apply for audits performed in accordance with the Canadian Audit Standards.

KAMs are those matters communicated to those charged with governance, that required significant auditor attention in performing the audit, and in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.

Currently, the reporting of KAMs in the auditors' report is only applicable when required by law or regulation or when the auditor is engaged to do so.

It is expected that KAM reporting will be required for certain listed entities in Canada starting in 2020.



Impact to the 2018 auditors' report

Accordingly, your 2018 auditors' report will not include the communication of any KAMs as we have not yet been engaged to communicate them and there is no law or regulation that requires such communication for the City.

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

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

Collaboration in the audit

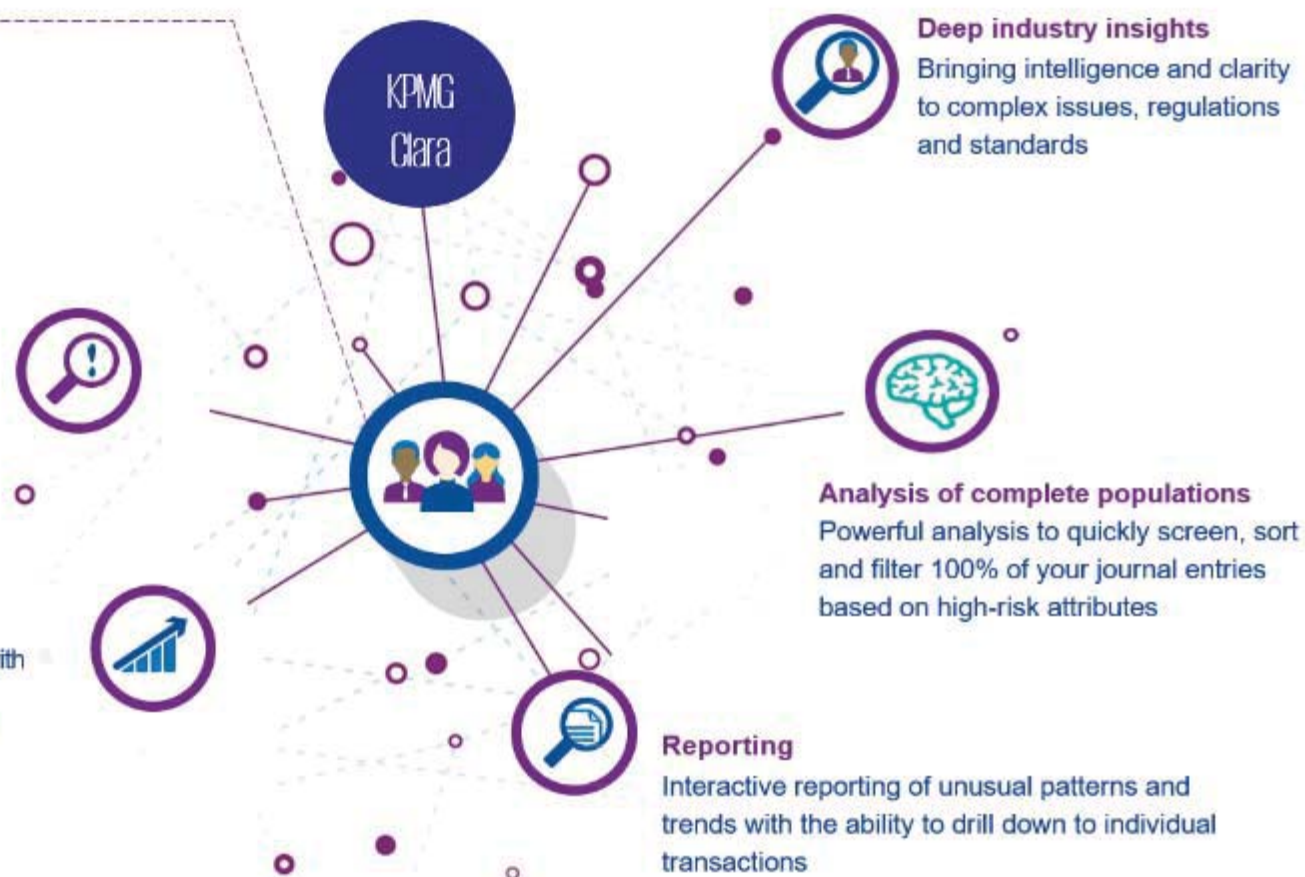
A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team

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

As attached



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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