

## For Information Only

### 2016 Audit Findings Report

Presented To:	Audit Committee
Presented:	Tuesday, Jun 20, 2017
Report Date	Thursday, May 25, 2017
Type:	Presentations

#### 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 2016 year-end.

#### Financial Implications

This report has no financial implications.

#### Signed By

**Report Prepared By**

Christina Dempsey  
Co-ordinator of Accounting  
*Digitally Signed May 25, 17*

**Manager Review**

Lorraine Laplante  
Manager of Accounting  
*Digitally Signed May 25, 17*

**Division Review**

Ed Stankiewicz  
Executive Director of Finance, Assets  
and Fleet  
*Digitally Signed May 31, 17*

**Recommended by the Department**

Kevin Fowke  
General Manager of Corporate  
Services  
*Digitally Signed Jun 5, 17*

**Financial Implications**

Ed Stankiewicz  
Executive Director of Finance, Assets  
and Fleet  
*Digitally Signed May 31, 17*

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

Ed Archer  
Chief Administrative Officer  
*Digitally Signed Jun 5, 17*

## Background

For entities with public accountability, auditing standards require auditors to communicate specific information to an Audit Committee. The City's external auditors will be presenting their Audit Findings Report with respect to the 2016 year-end to the Audit Committee. Their presentation will cover the following issues:

- Audit Opinion
- Independence
- Audit Highlights and Findings
- Internal Control Recommendations

The purpose of their presentation will be to communicate to the Committee a summary of any significant findings and other matters which our external auditors believe should be brought to your attention, thereby assisting this Committee with respect to their review and recommendation to Council for approval of the 2016 Consolidated Financial Statements of the City of Greater Sudbury. Attached is the complete Audit Findings Report prepared by the external auditors.

In addition to reporting all financial transactions appropriately following 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 concept of materiality is applied in determining whether or not the statements are considered to be a fair representation. Materiality includes both qualitative and quantitative factors which are assessed in the light of whether or not they may be likely to 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. The Audit Findings Report comments on weaknesses that have been identified as part of the audit and those identified in the report relate to information technology recommendations.

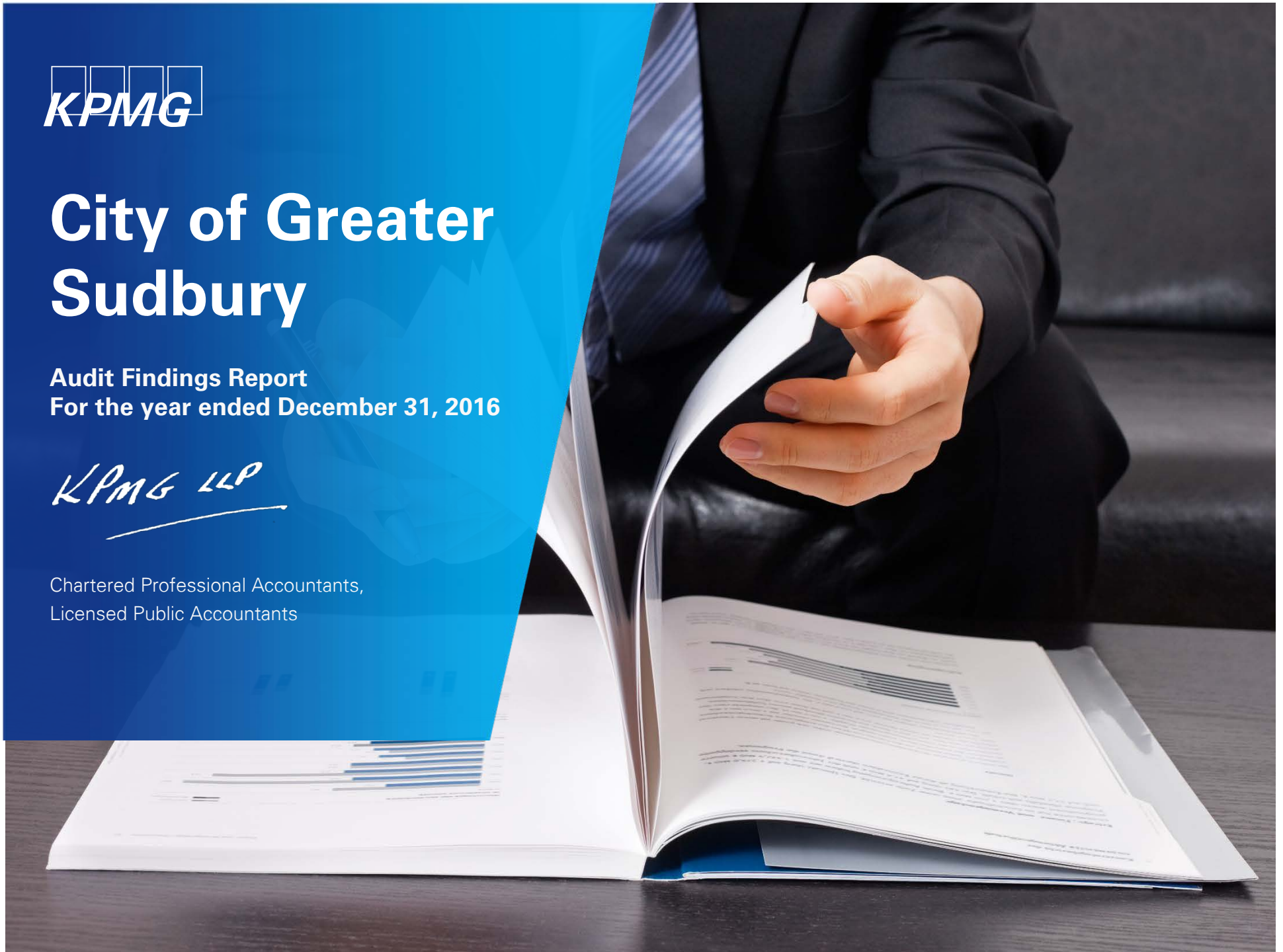


# City of Greater Sudbury

Audit Findings Report  
For the year ended December 31, 2016

*KPMG LLP*

Chartered Professional Accountants,  
Licensed Public Accountants



The contact at KPMG in connection with this report is:

**Oscar Poloni**  
 Lead Audit Engagement  
 Partner

Tel: 705-669-2515  
 opoloni@kpmg.ca

**Mike Andrighetti**  
 Lead Audit Senior Manager

Tel: 705-669-2511  
 mandrighetti@kpmg.ca

# Table of Contents

<b>Executive summary</b>	<b>3</b>
<b>Financial reporting risks and results</b>	<b>5</b>
<b>Fraud risks and results</b>	<b>7</b>
<b>Other Areas of Focus</b>	<b>8</b>
<b>Financial statement presentation and disclosure</b>	<b>10</b>
<b>Adjustments and differences</b>	<b>11</b>
<b>Control observations</b>	<b>12</b>
<b>Appendix 1: Audit Quality and Risk Management</b>	<b>14</b>
<b>Appendix 2: KPMG’s audit approach and methodology</b>	<b>15</b>

At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours.**

# Executive summary

---

## Purpose of this report

The purpose of this Audit Findings Report is to assist you in your review of the results of our audit of the consolidated financial statements of the City of Greater Sudbury (the “City”) as at and for the year ended December 31, 2016.

We appreciate the assistance of management and staff in conducting our audit. We hope this audit findings report is of assistance to you for the purpose above, and we look forward to discussing our findings and answering your questions.

## Changes from the Audit Plan

There have been no significant changes in our planned approach as designed by KPMG and previously communicated to the Audit Committee.

---

## Audit risks and results

Based on our audit procedures, including discussions with management, we have not identified any significant financial reporting risks that would impact the City’s financial reporting.

---

## Adjustments and differences

As a result of our audit procedures, we have not identified any corrected or uncorrected audit differences other than matters that are considered to be trivial in nature.

---

## Finalizing the audit

As of the date of this report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing any required communications with the City.
- Obtaining evidence of the City’s approval of the consolidated financial statements.
- Obtaining the signed management representation letter.
- Updating our assessment of subsequent events and other matters up to the date of approval of the consolidated financial statements by Council.

We will update you on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

The conclusion of our audit is set out in our draft auditors’ report attached to the draft consolidated financial statements.

# Executive summary (continued)

---

## Audit Materiality

We determined materiality by using prior year audited revenues as a benchmark and applying 2.0%, resulting in a materiality of \$11 million. The audit misstatement posting threshold was set at \$550,000.

Using year-end actual revenues did not result in a significant change to the materiality level determined above.

## Fraud risks and results

We discussed with you some considerations over fraud risks as required by professional standards.

---

## Control and other observations

As a result of our audit procedures, we have not identified any matters relating to weaknesses in the City's system of internal controls or financial reporting processes.

## Critical accounting estimates

Overall we are satisfied with the reasonability of the accounting estimates taken.

Accounting estimates are disclosed in note 1 to the consolidated financial statements.

---

## Significant accounting policies

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention. The significant accounting policies selected by the City are presented in the notes to the consolidated financial statements. The City has applied these policies consistently throughout the year ended December 31, 2016.

## Financial statement presentation and disclosure

The presentation and disclosure of the consolidated financial statements are in accordance with the City's relevant financial reporting framework, which is Canadian public sector accounting standards.

There were no misstatements, including omissions, if any, related to disclosure or presentation items.

# Financial reporting risks and results

Inherent risk is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

Our assessment of inherent risk is based on various factors, including the size of the balance, its inherent complexity, the level of uncertainty in measurements, as well as significant external market factors or those particular to the internal environment of the entity.

Areas of focus	Why	Audit findings
Key management estimates	<p>In preparing the City's consolidated financial statements, management is required to estimate certain financial statement items, including but not limited to allowances for doubtful accounts and liabilities relating to employee future benefits, landfill closure and post-closure activities and property assessment appeals. As these estimates are subjective in nature and influenced by the underlying assumptions, the potential exists for misstatements.</p>	<p>We have performed the necessary audit procedures over key management estimates, including:</p> <ul style="list-style-type: none"> <li>• Reviewing the appropriateness of key assumptions underlying the management estimates and determining consistency with the prior year;</li> <li>• Testing the accuracy of key data inputs used by the City in the preparation of management estimates;</li> <li>• Where appropriate, comparing the final settlement of prior year's estimates to assess the overall effectiveness of the City's process for developing management estimates; and</li> <li>• Where the City has retained external experts to assist in the quantification of management estimates, we have assessed the qualifications of the external experts, as well as the accuracy of the data provided to them.</li> </ul> <p>Based on the results of our audit procedures, no audit misstatements were identified.</p>
Capital assets	<p>Capital expenditures have been identified as a potential audit risk due to (i) the significance of capital expenditures and their associated funding; and (ii) the potential incentive for management to capitalize operating costs in order to achieve a pre-determined financial result.</p>	<p>We performed the necessary audit procedures over the City's capital assets, including:</p> <ul style="list-style-type: none"> <li>• Testing a sample of capital asset additions, including agreeing expenditures to supporting documentation and verifying that the expenditure represented a betterment</li> <li>• Reviewing repairs and maintenance accounts to identify instances where capital expenditures may have been expensed</li> <li>• Agreeing amortization rates to the City's amortization policy and recalculating amortization expense for a sample of capital assets</li> </ul> <p>Based on the results of our audit procedures, no audit misstatements were identified.</p>

# Financial reporting risks and results

<p>Revenue recognition</p>	<p>The City has received a significant amount of grant revenues that in a number of cases is subject to stipulations on use that could affect the recognition of revenue.</p>	<p>We have reviewed management’s basis for revenue recognition, including:</p> <ul style="list-style-type: none"> <li>• Reviewing supporting documentation for significant grants in order to identify stipulations on use and other conditions that could impact revenue recognition</li> <li>• For grants that are recognized based on expenditures incurred, ensuring that (i) grant revenues are appropriately calculated based on the level of expenditures incurred; and (ii) ensuring appropriate cut-off for revenue recognition</li> <li>• Reviewing journal entries to identify instances where management may have adjusted grant revenues in the course of preparing the consolidated financial statements</li> <li>• Reviewing the appropriateness of the City’s cut-off procedures for user fees and other revenue sources, including the accrual of water and wastewater revenues from the date of the last billing to year-end.</li> </ul> <p>Based on the results of our audit procedures, no audit misstatements were identified.</p>
<p>Provisions for assessment appeals</p>	<p>The City is subject to potential liability as a result of property assessment appeals, which could be significant depending on the properties involved and the number of years under appeal. Management has recorded accruals for potential refunds relating to property appeals and other potential taxation impacts (e.g. vacancy rebate applications).</p>	<p>We have reviewed management’s estimate of potential tax-related liabilities, including comparing projected and actual settlements for prior years and assessing the reasonableness of the underlying assumptions made by management based on available documentation concerning current appeals.</p> <p>Based on the results of our audit procedures, no audit misstatements were identified.</p>



# Fraud risks and results

Professional standards presume the risk of fraudulent revenue recognition and the risk of management override of controls exist in all companies.

The risk of fraudulent recognition can be rebutted, but the risk of management override of control cannot because management is typically 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.

Areas of focus	Why	Audit findings
Fraud risk from revenue recognition	This is a presumed fraud risk. Management may have the incentive to overstate revenues through overstatement of shareable costs in order to achieve the intended financial results.	Our audit procedures test for potential overstatement of revenues through: <ul style="list-style-type: none"> <li>● Testing of journal entries</li> <li>● Testing of grant revenues to ensure appropriate revenue recognition</li> <li>● Testing of capital additions to ensure appropriate treatment of repair and maintenance costs</li> </ul> Based on the results of our audit procedures, no audit misstatements were identified.
Fraud risk from management override of controls	This is a presumed fraud risk. Management may override internal controls in order to perpetrate or conceal fraud.	As the risk 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 and evaluating the business rationale of significant unusual transactions, as well as other procedures as considered appropriate by us.  Based on the results of our procedures, no audit misstatements or possible fraud exposures were identified.

# Other Areas of Focus

During the course of our audit, we have conducted specific procedures on certain processes and financial statement items that were not intended to support our audit opinion but rather were undertaken for the purposes of addressing potential areas of reputational risk or to contribute to the effectiveness and efficiency of the City's processes.

Areas of focus	Why	Audit findings
Compliance with established procurement policies	A potential exposure to reputational risk may exist if the City has procured goods or services in contravention of its established policies and procedures.	<p>We have undertaken specific procedures relating to the City's procurement processes, including</p> <ul style="list-style-type: none"> <li>- Reviewing selected procurements for compliance with the City's purchasing bylaw</li> <li>- Reviewing selected disbursements to ensure that the City's internal controls over payments, including approval levels established under the City's purchasing bylaw were complied with</li> </ul>
Compliance with established travel and expense reimbursement policies	A potential exposure to reputational risk may exist if City staff and/or elected officials have contravened travel and expense reimbursement policies and Payment of Expenses bylaw.	<p>Based on the procedures performed, we did not identify any instances of non-compliance with the City's procurement policies.</p> <p>We have tested a sample of expense reports submitted by management and members of Council in order to ensure:</p> <ul style="list-style-type: none"> <li>• The nature of the expenses submitted are in compliance with the City's policies and applicable bylaws, with supporting documentation available for out-of-pocket costs</li> <li>• Expense reports are approved in accordance with the provisions of the City's policies and applicable bylaws</li> </ul>
		<p>Based on the procedures performed, we did not identify any instances of non-compliance with the City's policies, procedures and bylaws relating to travel and expense reimbursements.</p> <p>Notwithstanding the above, we note that the City's policies permit the reimbursement of alcohol purchases under certain circumstances and our testing did identify instances of reimbursement of alcohol purchases. The reimbursement of alcoholic beverages may expose the City to potential reputational and legal risks, recognizing that other municipalities also permit the reimbursement of alcoholic beverages. In light of potential risk exposures, the City may wish to re-evaluate its policies with respect to alcoholic beverages.</p>

# Other Areas of Focus

## Internal processes

The testing of internal controls undertaken as part of our audit processes is intended to provide audit evidence in support of our audit opinion and will not necessarily test the full extent of a specific transaction process. As a value added service for the City, we have undertaken a detailed analysis of its payroll processing function.

The results of our review of the City's payroll process did not identify significant internal control weaknesses. However, we did identify a number of potential areas for improvement from an efficiency perspective, which have been communicated to the City separately.

# Financial statement presentation and disclosure

The presentation and disclosure of the consolidated financial statements are in accordance with the City'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 consolidated financial statements**

- The form, arrangement and content of the consolidated financial statements has been reviewed as part of our audit procedures and is considered to be adequate.
- The consolidated financial statements contain note disclosure, including continuity information, for significant financial statement items.

**Application of accounting pronouncements issued but not yet effective**

- No concerns are identified at this time regarding future implementation of accounting pronouncements.
- The consolidated financial statements includes note disclosure concerning future accounting pronouncements.

# Adjustments and differences

Adjustments and differences identified during the audit have been categorized as Corrected “adjustments” or Uncorrected “differences.” These include disclosure adjustments and differences.

Professional standards require that we request of management and the Audit Committee that all identified adjustments or differences be corrected.

## Corrected adjustments

No adjustments were made to the internal financial records of the City as a result of our audit procedures.

## Uncorrected differences

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

# Control observations

In accordance with professional standards, we are required to communicate to the Audit Committee any control deficiencies that we identified during the audit and have determined to be significant deficiencies in internal controls over financial reporting.

During the course of our audit, we tested selected controls over the following processes:

- Payroll
- Procurement and disbursements
- Council and management expense reports

As a result of our procedures, we did not identify any instances of (i) internal control weaknesses; or (ii) non-compliance with the City's policies and bylaws.

# Appendices

---

**Appendix 1: Audit Quality and Risk Management**

---

**Appendix 2: KPMG's audit approach and methodology**

---

# 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 <http://www.kpmg.com/Ca/en/services/Audit/Pages/Audit-Quality-Resources.aspx> for more information.

- 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.



- 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.
- We do not offer services that would impair our independence.
- 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

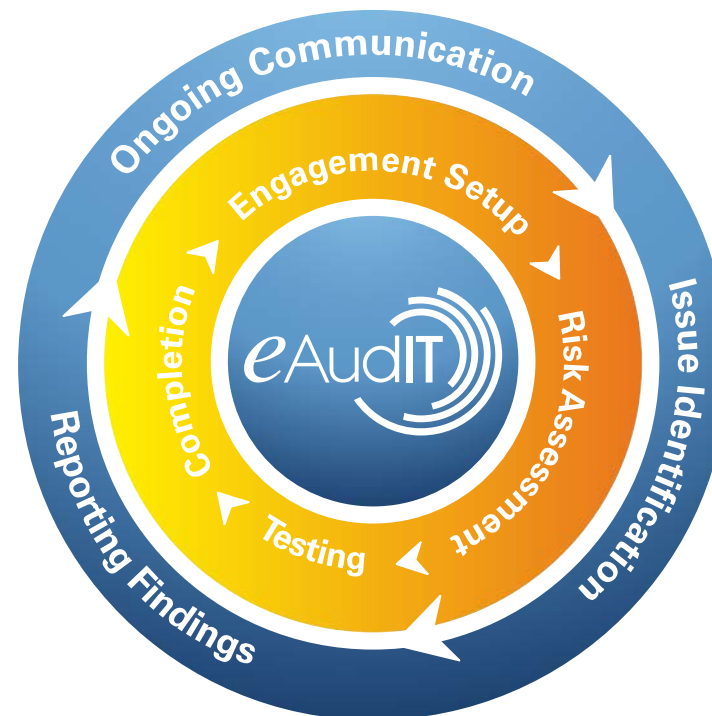
## Technology-enabled audit work flow (eAudit)

### Engagement Setup

- Tailor the eAudit work flow to your circumstances
- Access global knowledge specific to your industry
- Team selection and timetable

### Completion

- Tailor the eAudit work flow to your circumstances
- Update risk assessment
- Perform completion procedures and overall evaluation of results and financial statements
- Form and issue audit opinion on financial statements
- Obtain written representation from management
- Required Audit Committee communications



### Risk Assessment

- Tailor the eAudit work flow to your circumstances
- Understand your business and financial processes
- Identify significant risks
- Plan involvement of KPMG specialists and others including external experts, internal auditors, service organizations auditors and component auditors
- Determine audit approach
- Evaluate design and implementation of internal controls

### Testing

- Tailor the eAudit work flow to your circumstances
- Test operating effectiveness of internal controls (as considered necessary)
- Perform substantive tests

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

KPMG LLP, an Audit, Tax and Advisory firm ([kpmg.ca](http://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 155,000 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.

© 2017 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.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.