

Presented To:	Audit Committee
Presented:	Tuesday, Nov 15, 2016
Report Date	Monday, Oct 17, 2016
Type:	Presentations

Request for Decision

2016 External Audit Planning Report

Resolution

THAT the City of Greater Sudbury approves the 2016 External Audit Plan as outlined in the report dated November 15, 2016 from KPMG LLP.

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 overview of their External Audit Planning Report with respect to the 2016 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.

Signed By

Report Prepared By

Christina Dempsey
Co-ordinator of Accounting
Digitally Signed Oct 18, 16

Division Review

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Recommended by the Department

Ed Stankiewicz
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Recommended by the C.A.O.

Ed Archer
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City of Greater Sudbury

**Audit Planning Report
For the year ended December 31, 2016**

November 15, 2016

kpmg.ca/audit



The contacts at KPMG in connection with this report are:

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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

Audit and business risk

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- Key management estimates
- Provision for assessment appeals
- Revenue recognition
- Capital additions

See pages 4 - 6

KPMG team

The KPMG team will be led by Oscar Poloni. He will be supported by local resources from KPMG's Sudbury office, as well as support from KPMG's National firm as required.

Effective communication

We are committed to transparent and thorough reporting of issues to City management and the Audit Committee. We have planned our work to closely coordinate and communicate with KPMG partners and offices.

See Appendix 3

Audit Materiality

Materiality has been determined based on total revenues. We have determined materiality for planning purposes to be \$11 million for the year ending December 31, 2016.

See page 8

Independence

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow Audit Committee approved protocols.

Current developments

Please refer to Appendix 6 for relevant accounting and/or 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. 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 approach

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.

Significant financial reporting risks	Why	Our audit approach
Key management estimates	The City's financial statements include a number of liabilities such as employee benefit obligations, liabilities for contaminated sites, and solid waste management facility liability that are determined based on management estimates.	<ul style="list-style-type: none"> – Assess the reasonableness of the underlying assumptions supporting the management estimate, including the accuracy of data used in the development of the estimate – Determine the qualifications of management experts used to assist in the quantification of the estimates – Review management estimates developed in the past in comparison to actual results
Provision for assessment appeals	The City is subject to a number of property assessment appeals which may result in refunds of taxes paid in prior periods.	<ul style="list-style-type: none"> – Assess management's approach to determining the potential exposure for properties under appeal, including the underlying assumptions and data used – Consider alternate sources of information, most notably information provided by the OPTA tax system – Determine the qualifications of management experts used to assist in the quantification of the estimates – Review management estimates developed in the past in comparison to actual results
Revenue recognition	The City is in receipt of funding that may be restricted in terms of use based on the amount of expenditures incurred or other considerations	<ul style="list-style-type: none"> – Review funding agreements and other documentation to determine revenue recognition criteria – Compare revenue recognized to expenditures incurred to assess the reasonableness of management's revenue recognition – Review subsequent receipts to confirm the appropriateness of revenue recognized
Capital additions	Expenditures may be inappropriately classified depending on whether they meet the test of a betterment	<ul style="list-style-type: none"> – Test capital additions and assess whether the requirements for capitalization have been met – Test repair and maintenance and other relevant operating expenditures to determine if betterments have been expenses as opposed to capitalized

Audit approach

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, since 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.

Professional requirements	Why	Our audit approach
Fraud risk from revenue recognition	This is a presumed fraud risk. Management may attempt to achieve certain financial results by overstating revenues.	<ul style="list-style-type: none"> – Reviewing revenue recognition for conditional funding sources – Reviewing year-end accruals for user fees and other revenues to determine whether revenue has been overstated – Testing journal entries to identify transactions intended to overstate revenues
Fraud risk from management override of controls	This is a presumed fraud risk.	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.

Audit approach

Other areas of focus include reputational risk.

Other areas of focus	Why	Our audit approach
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.	<ul style="list-style-type: none"> - Review the system of management controls over procurement as a means of assessing the potential risk of non-compliance with procurement policies - Test a sample of procurements in order to assess: <ul style="list-style-type: none"> - Compliance with designated approval authorities - Compliance with requirement for competitive procurement - Overall execution of procurement process and whether fairness concerns are identified
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	<ul style="list-style-type: none"> - Review the system of management controls over travel and expense reimbursement as a means of assessing the potential risk of non-compliance with established policies - Test a sample of travel costs and expense reports for staff and Council in order to assess: <ul style="list-style-type: none"> - Compliance with designated approval authorities - Compliance with City policy with respect to acceptable expenditures
Immaterial revenue streams	A potential exposure to financial and reputational risk may exist as a result of weakness in internal controls over immaterial revenue streams that would not otherwise be subject to audit	<ul style="list-style-type: none"> - Document work processes (including internal controls) for two revenue streams that are not significant and as such, would otherwise not be subject to audit procedures

Data & analytics in the audit

We will be integrating Data & Analytics (D&A) procedures into our planned audit approach.

Use of innovative D&A allows us to analyze greater quantities of data, dig deeper and deliver more value from our audit.

We believe that D&A will improve both the quality and effectiveness of our audit by allowing us to analyze large volumes of financial information quickly, enhancing our understanding of your business as well as enabling us to design procedures that better target risks.

Area(s) of focus	Planned D&A routines
Journal entry testing Payroll Disbursements Revenues	We are in the process of working with management to determine the extent and timing of data analytics. Potential procedures may include utilizing computer-assisted audit techniques to: <ul style="list-style-type: none"> – Analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing – Perform subsequent receipt testing by comparing accounts receivable at year-end with cash receipts during the subsequent period – Analyze payroll disbursements to identify duplicate names, addresses or employee pay outside of defined thresholds – Analyze disbursements to identify vendor addresses that are consistent with City employees – Analyze revenue transactions to identify transactions outside of defined thresholds

Detailed results and summary insights gained from D&A will be shared with management and presented in our Audit Findings Report.

Materiality

Professional standards require us to re-assess materiality at the completion of our audit based on period-end results or new information in order to confirm whether the amount determined for planning purposes remains appropriate.

Our assessment of misstatements, if any, in amounts or disclosures at the completion of our audit will include the consideration of both quantitative and qualitative factors.

The first step is the determination of the amounts used for planning purposes as follows.

The determination of materiality requires professional judgment and is based on a combination of quantitative and qualitative assessments including the nature of account balances and financial statement disclosures.

Materiality determination	Comments	Amount
Metrics	Revenue	
Benchmark	Prior year's revenue	\$550 million
Materiality	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. The prior year's materiality was \$10.3 million.	\$11.0 million
% of Benchmark	The corresponding percentage for the prior year's audit was 2%.	2%
Performance materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures.	\$8.3 million
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The prior year's AMPT was \$514,000.	\$550,000

Our team

Team member	Background / experience	Discussion of role
Oscar Poloni Lead Audit Engagement Partner	<ul style="list-style-type: none"> – Office Managing Partner for KPMG's Northern Ontario business unit – 25 years of public accounting experience 	<ul style="list-style-type: none"> – Oscar will lead our audit for the City and be responsible for the quality and timeliness of everything we do. – He will often be onsite with the team and will always be available and accessible to you.
Derek D'Angelo Engagement Quality Control Reviewer	<ul style="list-style-type: none"> – Northern Ontario professional practice partner – 24 years of public accounting experience 	<ul style="list-style-type: none"> – Derek will provide quality review for financial statements – Derek will be available as an alternate to Oscar as required
Mike Andrighetti Audit Senior Manager	<ul style="list-style-type: none"> – Senior manager with extensive municipal experience – Eight years of public sector experience 	<ul style="list-style-type: none"> – Mike will work very closely with Oscar on all aspects of our audit for the City. – He will be on site and directly oversee and manage our audit field team and work closely your management team.
Kevin Kolliniatis IT Audit and Statistical Sampling Specialist	<ul style="list-style-type: none"> – Canadian lead for statistical sampling and data and analytics 	<ul style="list-style-type: none"> – Design of data and analytics procedures – Assistance with execution of data and analytics procedures

Value for 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 annual financial statements	\$89,500	\$93,000

Matters that could impact our fee

The proposed fees outlined above are based on the assumptions described in the engagement letter.

The critical assumptions, and factors that cause a change in our fees, include:

- Significant changes in the nature or size of the operations of the City beyond those contemplated in our planning processes;
- Changes in professional standards or requirements arising as a result of changes in professional standards or the interpretation thereof; and
- Changes in the time of our work.

Audit cycle and timetable

Our key activities during the year are designed to achieve our one principal objective:

To provide a robust audit, efficiently delivered by a high quality team focused on key issues.

October/November

- Initial planning meeting with City staff
- Presentation of audit planning report
- Review of predecessor audit files (first year only)
- Meeting with City IT to discuss D&A requirements

November

- Interim audit scheduled for week of November 7th
- Meeting with City staff to discuss interim audit results



April/May

- Year-end audit fieldwork

July

- Debrief meeting with City staff

June

- Issue audit opinion and supplementary reports
- Present audit findings report

Appendices

Appendix 1: Audit quality and risk management

Appendix 2: KPMG's audit approach and methodology

Appendix 3: Required communications

Appendix 4: Data & analytics in audit

Appendix 5: Lean in Audit™

Appendix 6: Current developments

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.



- 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 workflow (eAudit)

Engagement Setup

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

Completion

- Tailor the eAudit workflow 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
- Debrief audit process



Risk Assessment

- Tailor the eAudit workflow to your circumstances
- Understand your business and financial processes
- Identify significant risks
- Plan the use of KPMG specialists and others including auditor's external experts, management experts, internal auditors, service organizations auditors and component auditors
- Determine audit approach
- Evaluate design and implementation of internal controls (as required or considered necessary)

Testing

- Tailor the eAudit workflow to your circumstances
- Perform tests of operating effectiveness of internal controls (as required or considered necessary)
- Perform substantive tests

Appendix 3: Required communications

In accordance with professional standards, there are a number of communications that are required during the course 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. In accordance with professional standards, copies of the engagement letter and any subsequent amendments will be provided to the Audit Committee annually.
- **Audit planning report** – as attached
- **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
- **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 findings report** – at the completion of our audit, we will provide a report to the Audit Committee
- responses to these will assist us in planning our overall audit strategy and audit approach accordingly

Appendix 4: Data & analytics in audit

Turning data into value

KPMG continues to make significant investments in our Data & Analytics (D&A) capabilities to help enhance audit quality and provide actionable insight to our clients by unlocking the rich information that businesses hold.

When D&A is applied to the audit, it enables us to test complete data populations and understand the business reasons behind outliers and anomalies.

Advancements in D&A tools allow us to analyze data at more granular levels, focusing on higher risk areas of the audit and developing insights you can then leverage to improve compliance, potentially uncover fraud, manage risk and more.

KPMG is enhancing the audit

The combination of our proven industry experience, technical know-how and external data allows us to focus our audit on the key business risks, while providing relevant insights of value to you.

For the audit

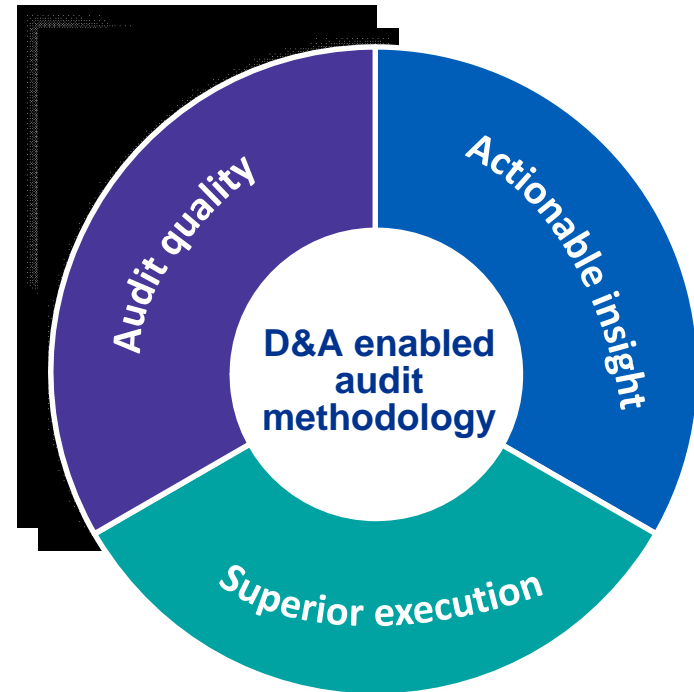
Audit quality

- Automated testing of 100% of the population
- Focuses manual audit effort on key exceptions and identified risk areas

For your business

Actionable insight

- Helping you see your business from a different perspective
- How effectively is your organization using your systems?



Appendix 5: Lean in Audit™

An innovative approach leading to enhanced value and quality

Our new innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process-oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and yourselves. For example, we may identify control gaps and potential process improvement areas, while companies have the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.

How it works

Lean in Audit employs three key Lean techniques:

1. End-to-end process mapping

- This is a workshop-based approach involving those who actually deliver the process, resulting in a shared, detailed understanding of the process and of client-identified areas of opportunity

2. Visual management

- Providing transparent, real-time reporting ensures a shared understanding of audit priorities, progress and any risks or issues that should be managed, resulting in a more productive, project-led approach that supports client and KPMG efficiencies.

3. Quality and value-mindset

- New capabilities allow audit teams to deliver deeper insights and focus on quality and value.

Appendix 6: Current developments

The following is a summary of the current developments that are relevant to the Council.

Standard	Summary and implications
PS 3210 - Assets	<p>This standard provides a definition of assets and further expands that definition as it relates to control.</p> <p>Assets are defined as follows:</p> <ul style="list-style-type: none"> – They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows. – The public sector entity can control the economic resource and access to the future economic benefits. – The transaction or event giving rise to the public sector entity's control has already occurred. <p>The standard also includes some disclosure requirements related to economic resources that are not recorded as assets to provide the user with better information about the types of resources available to the public section entity.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017</p>
PS 3380 – Contractual Rights	<p>This standard defines contractual rights to future assets and revenue.</p> <p>Information about a public sector entity's contractual rights should be disclosed in notes or schedules to the financial statements and should include descriptions about their nature and extent and the timing. The standard also indicates that the exercise of professional judgment would be required when determining contractual rights that would be disclosed. Factors to consider include, but are not limited to:</p> <ul style="list-style-type: none"> (a) contractual rights to revenue that are abnormal in relation to the financial position or usual business operations; and (b) contractual rights that will govern the level of certain type of revenue for a considerable period into the future. <p>This standard is effective for fiscal periods beginning on or after April 1, 2017</p>

Standard	Summary and implications
<p>PS 3320 – Contingent Assets</p>	<p>This standard defines contingent assets.</p> <p>They have two basis characteristics:</p> <ul style="list-style-type: none"> – An existing condition or situation that is unresolved at the financial statement date. – An expected future event that will resolve the uncertainty as to whether an asset exists. <p>The standard also has specific disclosure requirements for contingent assets when the occurrence of the confirming event is likely.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017</p>
<p>PS 2200 Related Party Disclosures</p>	<p>This standard relates to related party disclosures and defines related parties. Related parties could be either an entity or an individual. Related parties exist when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties.</p> <p>Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. Material financial impact would be based on an assessment of the terms and conditions underlying the transaction, the financial materiality of the transaction, the relevance of the information and the need for the information to enable the users to understand the financial statements and make comparisons.</p> <p>This standard also specifies the information required to be disclosed including the type of transactions, amounts classified by financial statement category, the basis of measurement, and the amounts of any outstanding items, any contractual obligations and any contingent liabilities. The standard also requires disclosure of related party transactions that have occurred where no amounts has been recognized.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017</p>
<p>PS 3430 Restructuring Transactions</p>	<p>A restructuring transaction in the public sector differs from an acquisition as they generally include either no or nominal payment. It also differs from a government transfer as the recipient would be required to assume the related program or operating responsibility.</p> <p>The standard requires that assets and liabilities are to be measured at their carrying amount. It also prescribes financial statement presentation and disclosure requirements.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017</p>

Standard	Summary and implications
PS 3420 Inter-entity Transactions	<p>This standard relates to the measurement of related party transactions and includes a decision tree to support the standard.</p> <p>Transactions are recorded a carrying amounts with the exception of the following:</p> <ul style="list-style-type: none"> – In the normal course of business – use exchange amount – Fair value consideration – use exchange amount – No or nominal amount – provider to use carrying amount; recipient choice of either carrying amount or fair value. – Cost allocation – use exchange amount <p>This standard is effective for fiscal periods beginning on or after April 1, 2017</p>
Standard of Financial Instruments	<p>A standard has been issued, establishing a standard on accounting for and reporting all types of financial instruments including derivatives. The effective date of this standard has recently been deferred and it is now effective for fiscal periods beginning on or after April 1, 2019</p> <p>Implications: This standard will require the City to identify any contracts that have embedded derivatives and recognize these on the consolidated statement of financial position at fair value. Portfolio investments in equity instruments are required to be recorded at fair value. Changes in fair value will be reported in a new financial statement – statement of remeasurement gains and losses. This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the Board. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type. The risks to be considered include credit, currency, interest rate, liquidity, and market risk.</p>
Revised Standard on Foreign Currency Translation	<p>A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency.</p> <p>The effective date of this standard has been deferred and is effective for fiscal periods beginning on or after April 1, 2019. Earlier adoption is permitted. An entity early adopting this standard must also adopt the new financial instruments standard.</p> <p>Implications: Exchange gains and losses arising prior to settlement are recognized in a new statement of remeasurement gains and losses.</p>

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