

Presented To:	Audit Committee
Presented:	Tuesday, Jun 19, 2018
Report Date	Friday, May 25, 2018
Type:	Presentations

## For Information Only

### 2017 Audit Findings Report

#### Resolution

For Information Only

#### Relationship to the Strategic Plan / Health Impact Assessment

This report refers to Responsive, Fiscally Prudent, Open Governance: Focus on openness, transparency and accountability in everything we do.

#### Report Summary

Audit standards require auditors to communicate specific information to an Audit Committee. The City's external auditors will be presenting their findings and statutory communications for the 2017 year-end.

#### Financial Implications

There are no financial implications associated with this report.

#### Signed By

**Report Prepared By**

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*Digitally Signed May 25, 18*

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

Ed Archer  
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## **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 2017 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 2017 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. As outlined in the Audit Findings Report there were no observed weaknesses in the City's system of internal controls and financial reporting processes.

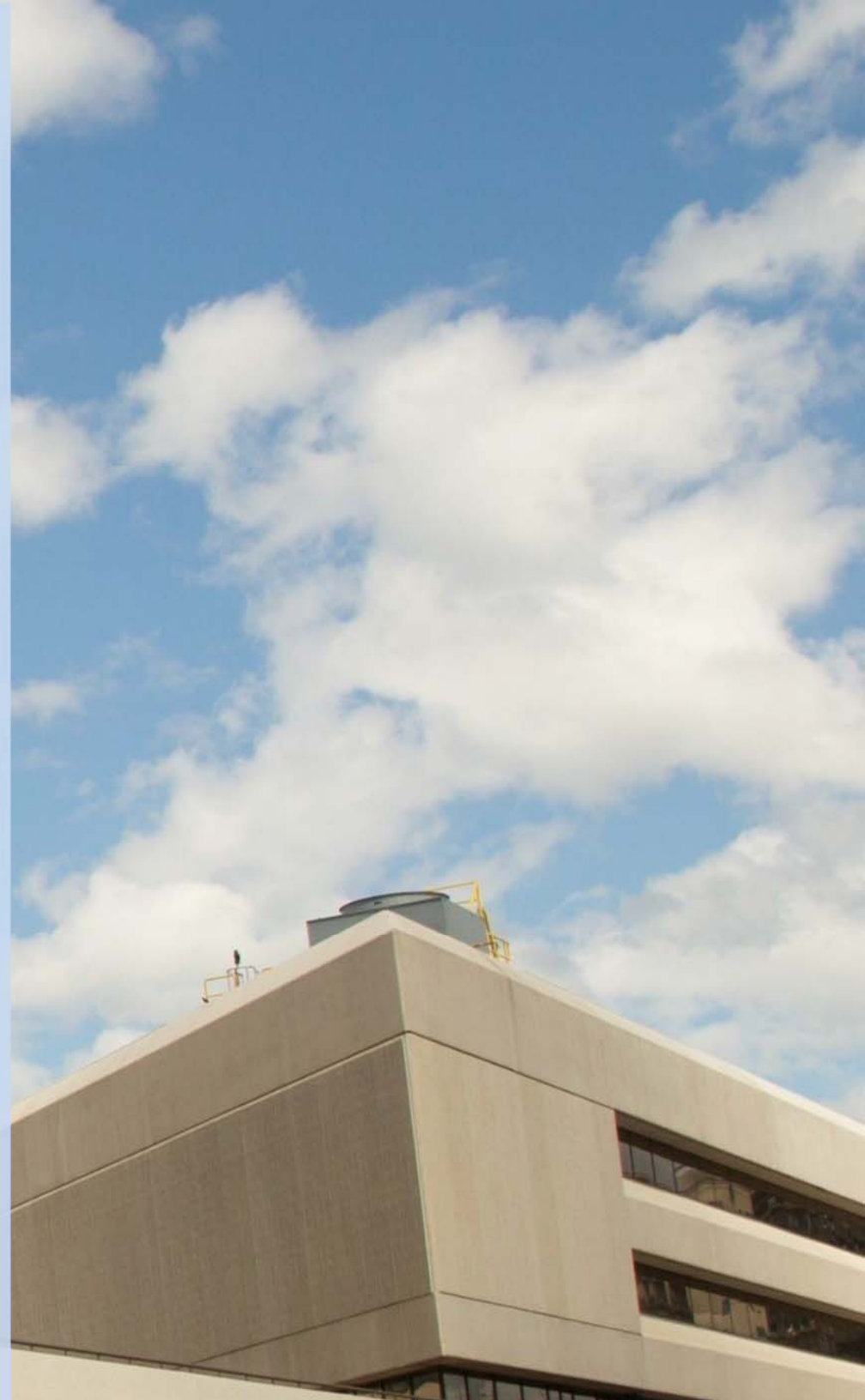


# City of Greater Sudbury

**Audit Findings Report  
For the year ended December 31, 2017**

*KPMG LLP*

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



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# Executive summary

## Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a Member of the Audit Committee, in your review of the results of our audit of the financial statements of the City of Greater Sudbury (the "City") as at and for the year ended December 31, 2017.

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.

## 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

We did not identify differences that remain uncorrected.

Corrected audit differences are identified in our representation letter.

## Finalizing the audit

As of the date of this report, we have completed the audit of the 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 financial statements.
- Obtaining the signed management representation letter.

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 financial statements. Our auditors' report will be dated upon the completion of any remaining procedures.

\*This Audit Findings Report should not be used for any other purpose or by anyone other than the audit committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

# Executive summary

## Audit Materiality

We determined materiality by using prior year audited revenues as a benchmark and applying 2%, resulting in a materiality of \$11.1 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

See Page 6.

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 financial statements.

## Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention. The significant accounting policies selected by the City are presented in the notes to the financial statements. The City has applied these policies consistently throughout the year ended December 31, 2017.

## Financial statement presentation and disclosure

The presentation and disclosure of the 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.

# Audit risks and results

Inherent risk of material misstatement 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. We highlight our significant findings in respect of significant financial reporting risks as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified.

Significant financial reporting risks	Why	Our response and significant findings
Revenue recognition	Revenue recognition has been identified as a potential audit risk due to the conditional nature of certain funding, which impacts revenue recognition.	<p>We have tested management's calculations of revenues, including:</p> <ul style="list-style-type: none"> <li>• Confirming senior government funding received and identifying conditional and unconditional funding</li> <li>• Reviewing levels of expenditures to assess the appropriateness of recognized revenues</li> <li>• Assessing the appropriateness of cut-off and year-end accruals for user fees and other revenues</li> <li>• Performing substantive testing of revenues</li> <li>• Performing substantive analytical procedures on revenues</li> </ul> <p>Based on the results of our audit procedures, we have not identified any audit differences related to revenues, other than items that were considered to be trivial in nature (i.e. less than our posting threshold)</p>
Capital additions	Capital expenditures have been identified as a potential audit risk due to the significance of capital expenditures and their associated funding and the potential incentive for management to capitalize items in order to overstate the City's financial performance	<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, we have not identified any audit differences related to capital assets.</p>

Significant financial reporting risks	Why	Our response and significant findings
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.	<p>We performed the necessary audit procedures over management's estimates, including assessing the reasonableness of key assumptions and performing a retrospective review of prior year's estimates. We have also undertaken the required procedures to assess our ability to rely on assessments made by management's experts, which were involved in the determination of liabilities for employee future benefits and landfill closure and post-closure costs.</p> <p>Based on the results of our audit procedures, we have not identified any audit differences related to management estimates.</p>
Fraud risk from revenue recognition	This is a presumed fraud risk. Management may have the incentive to overstate revenues through overstatement of costs in order to achieve the intended financial results.	<p>Our audit procedures test for potential overstatement of revenues through:</p> <ul style="list-style-type: none"> <li>• Testing of journal entries</li> <li>• Testing of conditional revenues to ensure appropriate revenue recognition</li> <li>• Testing of capital additions to ensure appropriate treatment of repair and maintenance costs</li> <li>• Review of management estimates for potential bias</li> </ul> <p>Based on the results of our audit procedures, no audit misstatements were identified.</p>
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.	<p>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.</p>



# Other Areas of Focus

We identified other areas of focus for our audit in our discussions with you in the Audit Plan.

Significant findings from the audit regarding other areas of focus are as follows:

Other areas of focus	Why	Our response and significant 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.	<ul style="list-style-type: none"> <li>– We have reviewed the City’s system of management controls over procurement as a means of assessing the potential risk of non-compliance with procurement policies</li> <li>– We have tested a sample of procurements in order to assess:                             <ul style="list-style-type: none"> <li>– Compliance with designated approval authorities</li> <li>– Compliance with requirement for competitive procurement</li> <li>– Overall execution of procurement process and whether fairness concerns are identified</li> </ul> </li> </ul> <p>Based on the results of our procedures, we have not identified any issues with respect to the City’s procurement processes.</p>
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"> <li>– We have reviewed the system of management controls over travel and expense reimbursement as a means of assessing the potential risk of non-compliance with established policies</li> <li>– We have tested a sample of travel costs and expense reports for staff and Council in order to assess:                             <ul style="list-style-type: none"> <li>– Compliance with designated approval authorities</li> <li>– Compliance with City policy with respect to acceptable expenditures</li> </ul> </li> </ul> <p>Based on the results of our procedures, we have not identified any issues with respect to non-compliance with or contravention of the City’s policies with respect to travel and expense reimbursements.</p>
LEAN in Audit	LEAN is a methodology for evaluating and enhancing the effectiveness and efficiency of internal processes.	<ul style="list-style-type: none"> <li>– We have conducted a value-stream mapping exercise for the City’s procurement processes and have provided a summary of our findings in a separate report to City management.</li> <li>– KPMG will be conducting a second value-stream mapping exercise involving parks and recreation user fee processes in June 2018.</li> </ul>

# Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Company's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.

We also highlight the following:

<b>Form, arrangement, and content of the financial statements</b>	The form, arrangement and content of the financial statements has been reviewed as part of our audit procedures as is considered to be adequate. The financial statements contain note disclosure, including continuity information, for significant financial statement items.
<b>Application of accounting pronouncements issued but not yet effective</b>	No concerns are identified at this time regarding future implementation of accounting pronouncements. While future accounting pronouncements have been announced with respect to financial instruments, foreign exchange transactions and asset retirement obligations, the City does not anticipate early adoption of these standards.

# 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 differences be corrected. We have already made this request of management.

## Corrected adjustments

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

## Uncorrected differences

Based on the results of our audit procedures, we have not identified any uncorrected differences considered to be other than clearly trivial.

# 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 ('ICFR').

Based on the results of our audit procedures, we have not identified any observed weaknesses in the City's system of internal controls and financial reporting processes. Our testing of internal controls included the following processes:

- Payroll
- Procurement
- Disbursements
- Expense reports

# Appendices

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**Appendix 1: Required communications**

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**Appendix 2: Audit Quality and Risk Management**

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**Appendix 3: Background and professional standards**

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# Appendix 1: Required communications

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

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements
- **Management representation letter** – In accordance with professional standards, copies of the management representation letter are provided to the Audit Committee.
- **CPAB Big Four Firm Public Report (November 2017)** – Please refer to <http://www.cpab-crc.ca/Documents/News%20and%20Publications/2017%20Big%20Four%20Report%20EN.pdf>

# Appendix 2: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards. Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram 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, the 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 3: Background and professional standards

## Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified through our audit procedures. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

## Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.



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