City of Guelph

Audit Findings Report
for the year ended December 31, 2019

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Prepared June 26, 2020 for the
Committee meeting on July 20, 2020

kpmg.ca/audit

KPMG

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KPMG contacts

The contacts at KPMG in connection with this report are:

Matthew Betik

Lead Audit Engagement Partner

Tel: 519-747-8245
mbetik@kpmg.ca

Brendan Hall

Audit Senior Manager

Tel: 519-747-8273
bdhall@kpmg.ca

Nicholas Deane

Audit Senior Accountant

Tel: 519-747-8850
nicholasdeane@kpmg.ca

Executive summary

Purpose of this report[1]

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 consolidated financial statements as at and for the year ended December 31, 2019. This Audit Findings Report builds on the Audit Plan we presented to the audit committee.

Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

Finalizing the Audit

As of June 26, 2020, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing our discussions with the audit committee
- Obtaining evidence of the Board's approval of the financial statements
- Obtaining a signed management representation letter
- Receipt of legal letters

We will update the audit committee, and not solely the Chair, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

Independence

We have included a copy of our annual independence letter dated as of the date of this report, which notes that we are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

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.

Uncorrected differences

We did not identify differences that remain uncorrected.

Control deficiencies

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting.

[1] 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.

Audit risks and results

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.

1	**Significant Risk**	Fraud risk from revenue recognition

Significant financial reporting risk	Why is it significant?
Fraud risk from revenue recognition	This is a presumed fraud risk. However, the audit team has rebutted this presumption due to the following reasons: — The presumed fraud risk is ordinarily associated with for-profit enterprises — The majority of revenue is calculated based on MPAC data and confirmed with lower tiers, approved utility rates and user fees, and from federal and provincial grants, and is not subject to complexity or judgement at the reporting level; and KPMG does not believe that the use of inappropriate cut-off or "channel" stuffing would be utilized to perpetrate fraud

Our response and significant findings

Not applicable.

Audit risks and results

2	**Significant Risk**	Fraud risk from management override of controls

Significant financial reporting risk	Why is it significant?
Fraud risk from management override of controls	This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

Our response and significant findings

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.
KPMG performed various substantive procedures examining journal entries that were being posted to the general ledger.
Journal entries were selected using various criteria to identify journal entries that could possibly be related to override activities.
No issues were identified in our testing performed.

Audit risks and results - estimates

We have summarized our assessment of the subjective areas.

Asset / liability	Carrying Amount ($'000s)
Landfill Closure & Post Closure Liability	$4,520
Contaminated Sites Liability	$26,000

KPMG comment

- Assessed the appropriateness of the City's internal expert used for determining the contaminated sites liability by assessing their competence, capabilities, and objectivity so we can rely on their work for our audit.
- Focused review of calculations and inputs used in the calculation, such as the discount rate and budgeted expenditures.
- Performed a retrospective review and compared actual expenditures to 2019 expected budgeted expenditures used in the calculation for the liability.
- Compared forecasted expenditures in prior years to the current year forecast for consistency.
- Assessed management's assumptions used for future post closure costs to determine if they are reasonable.

KPMG did not find any issues with the reasonableness of management's estimate for the above noted liabilities.

We note that commencing in the year ending December 31, 2022, the City will be required to adopt the new accounting standards for Asset Retirement Obligations, which is expected to have a significant impact on the measurement of the landfill closure & post closure liability. The liability balance is expected to increase.

Audit risks and results - estimates

Asset / liability	Carrying Amount ($'000s)
Employee Future Benefits:	
Post-employment/Retirement Liability	$21,044
WSIB Liability	$10,462
Sick Leave Liability	$10,305

KPMG comment

- Reviewed valuation report by the actuary, Nexus Actuarial Consultants, including related assumptions and inputs.
- Confirmed actuary's assessment and linked it to the related liability.
- Ensured the note disclosure was complete and accurate based on actuary reports.
- Tested the appropriateness of the underlying data, including employee populations
- Discount rates used in calculating the employee future benefits range from 3.75% - 4.00%, considered to be reasonable, and consistent with similar term borrowing rates
- Tested the supporting assumptions for payroll accruals.

KPMG did not find any issues with the reasonableness of management's estimate for the employee future benefits liability.

KPMG notes that significant changes to assumptions for the WSIB liability resulted in an increase to the accrued benefit obligation. The most notable change was the increase to expected future payments due to historical experience of greater claims volume and higher amounts per claim. This resulted in a $9.2M actuarial loss which will be recognized as an expense over the next 10 years.

We believe management's process for identifying critical accounting estimates is considered appropriate.

Audit risks and results

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

3	**Other area of focus**	Investment in Guelph Municipal Holdings Inc.

Other area of focus	Why are we focusing here?
Investment in Guelph Municipal Holdings Inc.	– Significance of transaction during the year

Our response and significant findings

- Effective January 1, 2019, Guelph Municipal Holdings Inc. (“GMHI”) merged its investment in Guelph Hydro Electric Systems Inc. (“GHESI”) to Alectra Inc. (“Alectra”) in exchange for a 4.63% share of Alectra Inc.
- The transaction was accounted for at fair value, resulting in an accounting gain of approximately $46M, less deferred income taxes of $5.6M. The $46M gain represents the difference between GMHI’s carrying value of GHESI [based on historical earnings less dividends paid] and the fair value of the shares of Alectra received. Note that the carrying value of GHESI was not its fair value at the time of the transaction.
- GMHI records its 4.63% share of Alectra’s earnings as an increase to its investment and reduces the investment by any dividends received. The consolidated financial statements of the City of Guelph record 100% of GMHI’s earnings in its statement of operations. Dividends received from GMHI are recorded as a reduction to the investment balance. This is different from the City budget approach, which includes the dividends from GMHI as income.
- KPMG audited the sale of GHESI shares to Alectra and the share of equity earnings of Alectra in GMHI for 2019 for the purposes of supporting our audit of the consolidated financial statements of the City.

Audit risks and results

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

4	**Other area of focus**	Obligatory Reserve Funds Revenue and Deferred Revenue

Other area of focus	Why are we focusing here?
Obligatory Reserve Funds Revenue and Deferred Revenue	Revenue recognized from the Development Charge Reserve Fund is subject to judgement as capital projects must be development in nature

Our response and significant findings

- Performed substantive testing over amounts being recognised as revenue.
- Tested collection of development charges.

KPMG did not find any issues identified through our audit procedures.

Audit risks and results

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

5	**Other area of focus**	Tangible Capital Assets (TCA)

Other area of focus	Why are we focusing here?
Tangible Capital Assets (TCA)	— Significant of the account balances. — Risk of error in inappropriately recognizing costs as either capital or operating

Our response and significant findings

- Substantive test of details approach, vouching samples of additions and retirements in fiscal 2019.
- Tested open Construction in Progress projects to identify projects that should have been moved to TCA or Operating expenses.
- Review of expense accounts to ensure that items related to tangible capital assets were not inappropriately expensed in 2019.
- Recalculation of amortization expenses performed.

KPMG did not find any issues identified through our audit procedures.

Audit approach

Other areas of focus	Our audit approach and findings
Investments and related income	— Confirmation of details with investment managers
Taxation Revenue	— Analytical procedures recalculating tax revenues using approved tax rates and related MPAC assessments.
User Fees and Service Charge Revenue	— Analytical procedures were performed comparing current year's revenues on a disaggregated basis to the current year budget and the prior year, adjusting for known changes in assumptions
Expenses	— Analytical procedures comparing current year's expenses on a disaggregated basis to the current year budget and the prior year, adjusting for known changes in assumptions — Substantive procedures performed to test the existence and accuracy of expenses — Testing the completeness, existence, and accuracy of yearend accruals, most notably those that contain areas of estimate of judgment
Government Transfers	— Reviewed agreements to ensure proper revenue recognition criteria was followed. To ensure the transfers were authorized and all eligibility criteria and any stipulations were met. — Performed test of details on significant transfers

KPMG did not find any issues through our audit procedures on the above noted areas of focus

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.

We also highlight the following:

Form, arrangement, and content of the financial statements	The form, arrangement and context of the financial statements are appropriate for the size, scope and industry segment of the organization.
Application of accounting pronouncements issued but not yet effective	No concerns at this time regarding future implementation.

Uncorrected differences and Corrected Adjustments

Differences and adjustments include disclosure differences and adjustments.

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.

Uncorrected differences

We did not identify differences that remain uncorrected. Our collection threshold was $400,000 for items impacting the annual surplus and $1,000,000 for items not impacting the annual surplus.

Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Appendices

Content

Appendix 1: Other Required Communications

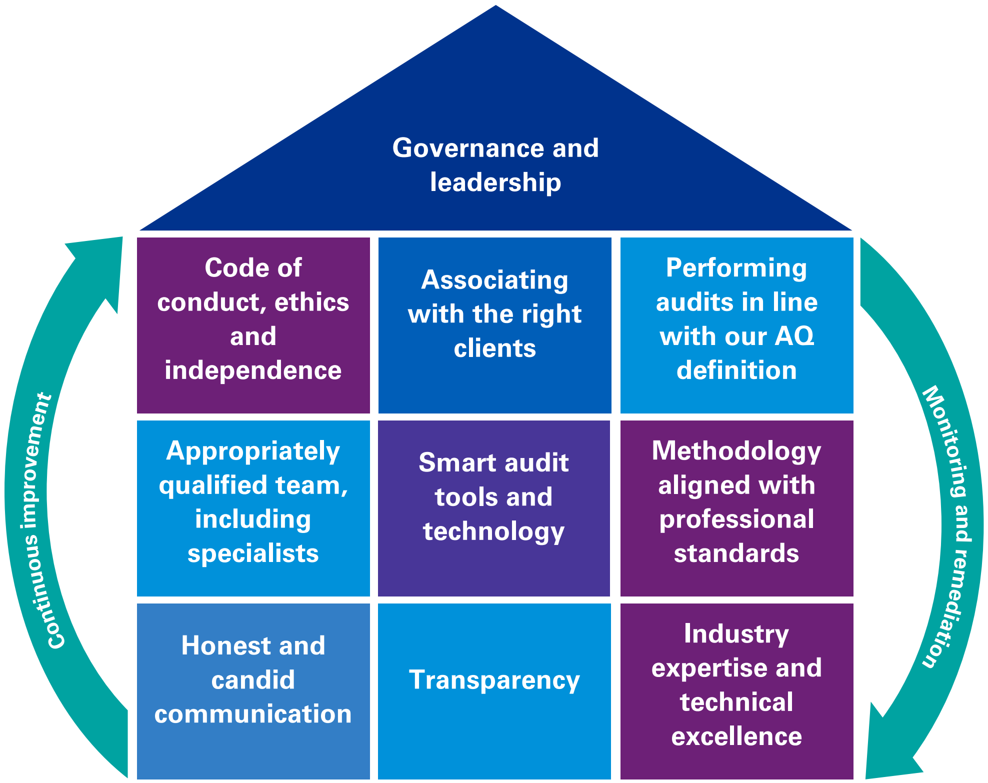
In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

Auditor’s report	Management representation letter
The conclusion of our audit is set out in our draft auditors’ report attached to the draft financial statements.	In accordance with professional standards, a copy of the management representation letter is provided to the audit committee. The management representation letter is attached.

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 summarizes the key elements of our quality control system.



Audit Quality Framework

What do we mean by audit quality?

Audit Quality (AQ) is at the core of everything we do at KPMG.

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

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls and
- All of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics,** and **integrity**.

Our AQ Framework summarises how we deliver AQ. Visit our Audit Quality Resources page for more information including access to our Audit Quality and Transparency report.

Appendix 3: Management Representation Letter

KPMG LLP
115 King Street South,
2nd Floor
Waterloo, ON N2J 5A3

July 20, 2020

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as “financial statements”) of City of Guelph (“the Entity”) as at and for the period ended December 31, 2019.

General:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Responsibilities:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated May 4, 2019, including for:

   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.

   b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements (“relevant information”), such as financial records, documentation and other matters, including:

      — the names of all related parties and information regarding all relationships and transactions with related parties;

      — the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements. All significant actions are included in such summaries.

   c) providing you with unrestricted access to such relevant information.

   d) providing you with complete responses to all enquiries made by you during the engagement.

   e) providing you with additional information that you may request from us for the purpose of the engagement.

   f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.

   g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

   h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

i) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that we, and others within the entity, did not intervene in the work the internal auditors performed for you.

Internal control over financial reporting:

2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

Fraud & non-compliance with laws and regulations:

3) We have disclosed to you:

   a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

   b) all information in relation to fraud or suspected fraud that we are aware of that involves:

      — management;

      — employees who have significant roles in internal control over financial reporting; or

      — others

      where such fraud or suspected fraud could have a material effect on the financial statements.

   c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.

   d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.

   e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Subsequent events:

4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

Related parties:

5) We have disclosed to you the identity of the Entity's related parties.

6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Estimates:

8) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Going concern:

9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.

10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

Non-SEC registrants or non-reporting issuers:

11) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002).

12) We also confirm that the financial statements of the Entity will not be included in the group financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Yours very truly,

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Tara Baker, City Treasurer, GM of Finance

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Shanna O'Dwyer, Manager, Financial Reporting and Accounting

Attachment I – Definitions

Materiality

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

Fraud & error

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Related parties

In accordance with Public Sector Accounting Board (PSAB) *related party* is defined as:

- A related party exists when one party has the ability to exercise control or shared control over the other. Two or more parties are related when they are subject to common control or shared control. Related parties also include key management personnel and close family members.

In accordance with Public Sector Accounting Board (PSAB) a *related party transaction* is defined as:

- A transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party. These transfers are related party transactions whether or not there is an exchange of considerations or transactions have been given accounting recognition. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

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