

# The City of Guelph

Audit Planning Report  
for the year ended December 31, 2020

*KPMG LLP*

Prepared for the Audit Committee meeting  
November 1, 2020

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

**KPMG**



# Table of contents

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<b>EXECUTIVE SUMMARY</b>	<b>1</b>
<b>GROUP AUDIT SCOPE</b>	<b>3</b>
<b>AUDIT RISKS</b>	<b>4</b>
<b>MATERIALITY</b>	<b>12</b>
<b>THE AUDIT OF TODAY, TOMORROW &amp; THE FUTURE</b>	<b>13</b>
<b>KEY DELIVERABLES AND MILESTONES</b>	<b>14</b>
<b>PROPOSED FEES</b>	<b>15</b>
<b>CURRENT DEVELOPMENTS AND AUDIT TRENDS</b>	<b>16</b>
<b>APPENDICES</b>	<b>18</b>
<b>APPENDIX 1: AUDIT QUALITY AND RISK MANAGEMENT</b>	<b>19</b>
<b>APPENDIX 2: KPMG'S AUDIT APPROACH AND METHODOLOGY</b>	<b>20</b>
<b>APPENDIX 3: LEAN IN AUDIT™</b>	<b>21</b>
<b>APPENDIX 4: REQUIRED COMMUNICATIONS</b>	<b>22</b>



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# Executive summary



## Group audit scope

Our audit consists of 4 of components over which we plan to perform:

- 6 full scope audit(s)

See page 3



## Audit and business risks

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

- Tangible capital assets
- Post-employment benefits
- Obligatory reserve fund revenue
- Accounting for Contaminated sites

See pages 4-11



## Audit materiality

Materiality has been determined based on adjusted revenue. We have determined group materiality to be \$8,000,000.

See page 12





# Executive summary



## Independence and Quality Control

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



## Proposal Fees

Proposed fees for the annual group audit and special reports is \$133,300.

See page 15.



## Current developments and Audit Trends

Please refer to pages 16 and 17 for audit and accounting changes relevant to the City and audit trends.

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# Group Audit Scope

Entities in which KPMG performs an audit on are as follows:

Entities	Scoping
Corporation of the City of Guelph	Audit
Downtown Guelph Business Association	Audit
Wellington-Dufferin-Guelph Public Health	Audit
Guelph Junction Railway	Audit
Guelph Municipal Holdings	Audit
The Elliott	Audit
Provincial Offenses Court Program Statement	Special Report





# Audit risks

## Professional requirements

Fraud risk from revenue recognition.

## Why is it significant?

The risk of fraud from revenue recognition has been rebutted

## Our audit approach

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, approved utility rates and user fees, and is not subject to complexity or judgement at the reporting level; and
- KPMG does not believe that the use of inappropriate cut-off would be utilized to perpetrate fraud.



# Audit risks

## Professional requirements

Fraud risk from management override of controls.

## Why is it significant?

This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

## Our audit approach

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 risks

## Other areas of focus

Post-employment benefits

## Why are we focusing here?

- Estimates and judgements used by management
- Complexity of the accounting guidance

## Our audit approach

- Communicate with management's actuarial specialists
- Assess the reasonableness of assumptions used, and
- Test the appropriateness of the underlying data, including employee populations
- We will also use the work of the Nexus Actuarial in our audit of the accounts and disclosures.





# Audit risks

## Other areas of focus

Tangible Capital Assets

## Why are we focusing here?

- Significance of the account balances
- Risk of error in inappropriately recognizing costs as either capital or operating

## Our audit approach

- Discuss capitalization policies and their application with management
- Test a sample of capital additions to ensure existence and accuracy
- Review of work orders and closed work orders for capitalization
- Test items recorded as repairs & maintenance or other similar accounts to ensure completeness of capital additions



# Audit risks

## Other areas of focus

Liabilities for contaminated sites

## Why are we focusing here?

- Significance of the account balance
- Complexity, judgement, and estimates involved

## Our audit approach

- Review management's prepared assessment of contaminated sites
- Inquire of any changes to assessment
- Test changes from the prior year



# Audit risks

## Other areas of focus

Obligatory Reserve Funds Revenue and Deferred Revenue

## Why are we focusing here?

- Revenue recognized from the Development Charge Reserve Fund is subject to judgement as capital projects must be growth related in nature

## Our audit approach

- Identify and evaluate the operative effectiveness of internal controls over the identification of development charge funding projects and allocation of related expenses
- Perform substantive testing over amounts being recognized as revenue
- Perform testing of development charges collected
- Obtain a sample of costs that relate to development charge revenue to ensure they are appropriate and are allocated to the appropriate project



# Audit risks

Other areas of focus	Why are we focusing here?
Investments and related income	Significant account
Taxation Revenue	Significant account

Our audit approach
— Confirmation of details with investment managers.
— Analytical procedures recalculating tax revenues using approved tax rates and related MPAC assessments.



# Audit risks

## Other areas of focus

User Fees and Service Charge Revenue

Expenses

Government Transfers

## Why are we focusing here?

Significant account with significant transactions

Significant account with significant transactions

Significant account

## Our audit approach

- Analytical procedures comparing current year's revenues on a disaggregated basis to the current year budget and the prior year, adjusting for known changes in assumptions
- 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 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
- Review of agreements to ensure proper revenue recognition criteria was followed. To ensure the transfers were authorized and all eligibility criteria and any stipulations were met.
- Perform test of details on significant transfers

# Materiality

Materiality determination	Comments	Group amount
<b>Materiality</b>	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 corresponding amount for the prior year's audit was \$8 million.	\$8 million
<b>Benchmark</b>	Based on adjusted revenues from the prior year. We have adjusted out the one-time impact of GMHI of approximately \$30M This benchmark is consistent with the prior year.	\$500 million
<b>% of Benchmark</b>	The corresponding percentage for the prior year's audit was 1.65%.	1.60%
<b>Audit Misstatement Posting Threshold (AMPT)</b>	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$400 thousand.	\$400 thousand Reclass threshold: \$1 million

Materiality is used to scope the audit, identify risks of material misstatements and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

## We will report to the Audit Committee:



Corrected audit misstatements



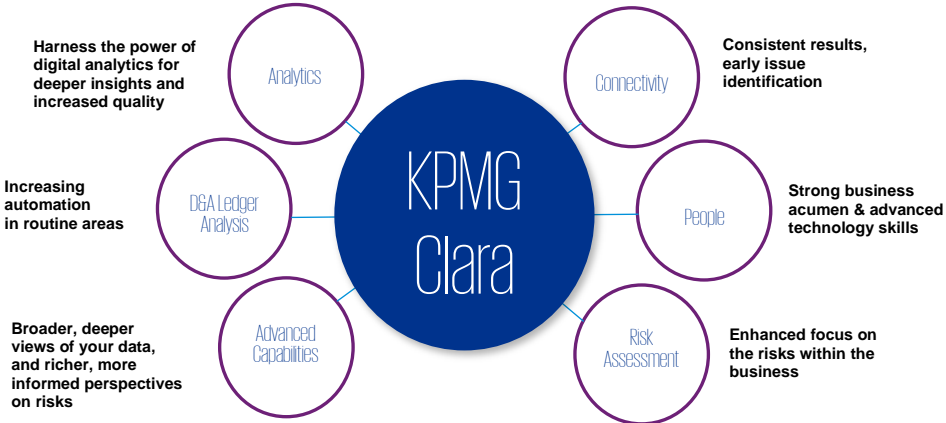
Uncorrected audit misstatements



# The audit of today, tomorrow & the future

As part of KPMG’s technology leadership, our audit practice has developed technologies and alliances to continuously enhance our capabilities and deliver an exceptional audit experience.

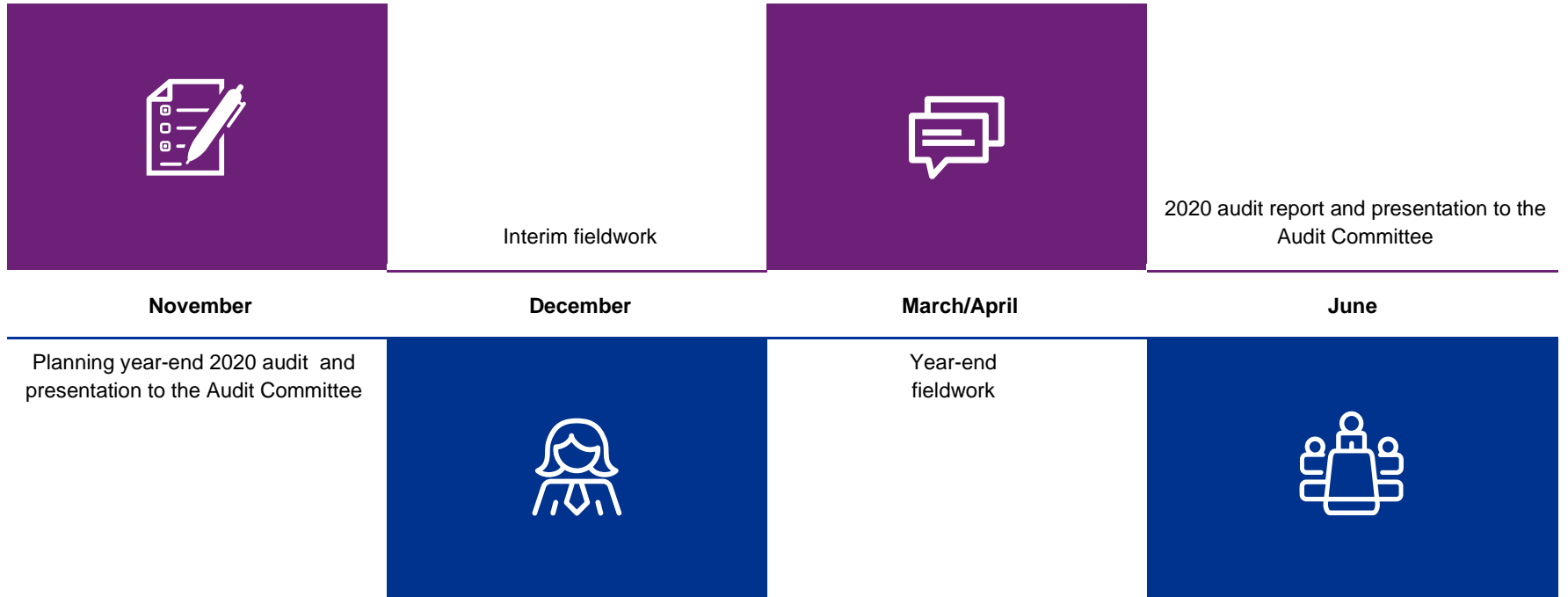
Technology empowers us with the ability to perform deep analysis over your financial information, focusing our effort and interactions on the areas of greatest risk and minimizing disruption to your business.



Technology we use today	
Tool	Benefit to audit
<b>KPMG Clara Client Collaboration</b>	KCCC is our secure audit platform and a one-stop shop through which we plan, execute and manage the audit, providing you with real-time access to the process at every step, including exchange of information and access to the real-time reporting you need in one central location.
<b>Account Analysis Tool</b>	Our account analysis tool provides meaningful general ledger data insights during the planning phase of the audit that can be used to assist the engagement team in obtaining a more thorough understanding of the business processes and underlying flow of transactions through utilization of Account Analysis, Visual Ledger and Journal Entry Analysis functional features. Our tool enables a more precise risk assessment and development of a tailored audit approach.
<b>Data &amp; Analytics Routines</b>	Team to add details of specific D&A routines done on the client (can be combined with KPMG Clara Advanced Capabilities on the previous page).
<b>Data Extraction &amp; Analytics Tools</b>	Our data extraction tools assist with risk assessment procedures and perform automated audit procedures in key cycles using data extracted directly from your ERP system.



# Key deliverables and milestones





# Proposed fees



In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above.

Our fee analysis has been reviewed with and agreed upon by management.

Our fees are estimated as follows:

	Current period (budget)
Audit of the financial statements and special reports	\$133,300

The fees are based on our most recent proposal submission for audit services and includes all of the entities identified in the scoping section of this report.



## 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
- Changes in the timing of our work



# Current developments and audit trends

The following is a summary of the current developments that are relevant to the City:

Standard	Summary and implications
<b>Canadian Assurance Standard - CAS 540, Auditing Estimates and Related Disclosures</b>	<p>Update standards are applicable for the 2020 audit of the City's financial statements. Key highlights of the revised standards include:</p> <ul style="list-style-type: none"><li>- Increased emphasis and attention to consider management bias and contradictory evidence<ul style="list-style-type: none"><li>- Required to consider new factors, including:<ul style="list-style-type: none"><li>- Degree of uncertainty associated with underlying assumptions</li><li>- Complexity of the process to develop the estimate</li><li>- Number and complexity of significant assumptions</li><li>- Degree of subjectivity</li><li>- Length and degree of uncertainty in forecasts</li></ul></li></ul></li><li>- Obtain an understanding of how the following are selected by management and assessing the differing risks amongst these categories:<ul style="list-style-type: none"><li>- methods,</li><li>- data, and</li><li>- assumptions</li></ul></li><li>- Expansion of auditor's requirement to understand how management used the work of specialists</li></ul>
<b>PS 3250, Employee Benefits</b>	<p>Identified as the top priority in PSAB's 2014 Project Priority Survey, the Board has approved a project to review Section PS 3250, Retirement Benefits, and Section PS 3255, Post-employment Benefits, Compensated Absences and Termination Benefits. Since the issuance of these Sections decades ago, new types of pension plans have been introduced and there have been changes in the related accounting concepts.</p> <p>This project will involve looking at issues such as deferral of experience gains and losses, discount rates, how to account for shared risk plans, multi-employer defined benefit plans and vested sick leave benefits. Other improvements to existing guidance will also be considered.</p> <p>A new, comprehensive Handbook Section on employment benefits will replace the two existing Sections. PSAB have sent out an invitation to comment.</p>



<b>PS 3280, Asset Retirement Obligations</b>	<p>This standard describes how to account for and report asset retirement obligations associated with tangible capital assets.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2021 (the City's December 31, 2022 yearend).</p> <p>Implications: The City will have to identify if they have any asset retirement obligations</p>
<b>Public Private Partnerships</b>	<p>In recent years, governments across Canada are increasingly using various forms of public private partnership arrangements for the provision of assets and delivery of services.</p> <p>This project is expected to develop in two stages. The first stage will involve contemplating specific issues, including project scope, recognition and measurement of a public private partnership and disclosure requirements. Other issues will also be considered. The second stage will involve determining how to account for public private partnerships.</p> <p>The objective is to develop a public sector accounting standard specific to public private partnerships.</p>
<b>PS 3041, Portfolio investments</b>	<p>This section revises and replaces PS 3040, Portfolio Investments. It describes how to account for and report portfolio investments.</p>
<b>PS 3400, Revenue</b>	<p>Currently the Public Sector Accounting Handbook has two sections that address two major sources of revenue, government transfers and tax revenue. This new standard addresses the recognition, measurement and presentation of revenues that are common in the public sector other than government transfers and tax revenue.</p> <p>PSAB has approved this section, in the fourth quarter of 2018 the final standard was released.</p>

# Appendices



**Appendix 1: Audit quality and risk management**



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



**Appendix 3: Lean in Audit™**



**Appendix 4: Required Communications**

# Appendix 1: Audit quality and risk management



**KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards. Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems. Visit our [Audit Quality Resources page](#) for more information including access to our most recent [Audit Quality and Transparency Report](#).**

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 four years.

We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality. We do not offer services that would impair our independence.

All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.

The processes we employ to help retain and develop people include:

- Assignment based on skills and experience
- Performance evaluation
- Development and training
- 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.

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

# Appendix 2: KPMG's audit approach and methodology



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

## Collaboration in the audit

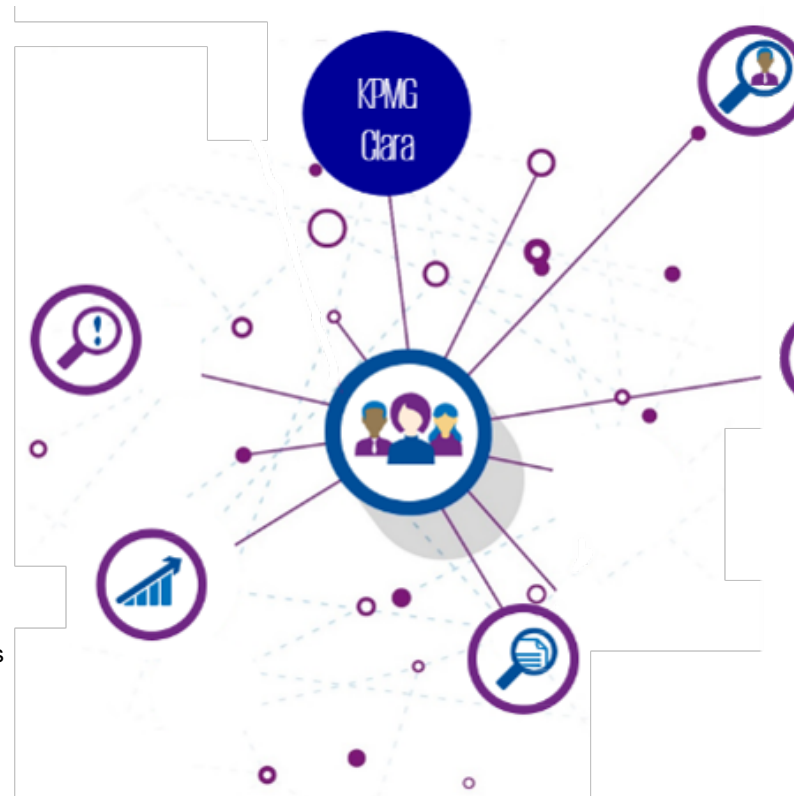
A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team

## Issue identification

Continuous updates on audit progress, risks and findings before issues become events

## Data-driven risk assessment

Automated identification of transactions with unexpected or unusual account combinations – helping focus on higher risk transactions and outliers



## Deep industry insights

Bringing intelligence and clarity to complex issues, regulations and standards

## Analysis of complete populations

Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes

## Reporting

Interactive reporting of unusual patterns and trends with the ability to drill down to individual transactions



# Appendix 3: Lean in Audit™



## An innovative approach leading to enhanced value and quality

Our 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 management. For example, we may identify control gaps and potential process improvement areas, while management has 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. Lean training

Provide basic Lean training and equip our teams with a new Lean mindset to improve quality, value and productivity.



### 2. Interactive workshops

Perform interactive workshops to conduct walkthroughs of selected financial processes providing end-to-end transparency and understanding of process and control quality and effectiveness.



### 3. Insight reporting

Quick and pragmatic insight report including immediate quick win actions and prioritized opportunities to realize benefit.



# Appendix 4: Required communications



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



## Engagement letter

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter and any subsequent amendment letters as provided by management.



## Management representation letter

We will obtain from management certain representations at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Audit Committee.



## Audit planning report

This report.



## Audit findings report

At the completion of our audit, we will provide our audit findings to the Audit Committee.



## Required inquiries

Professional standards require that during the planning of our audit we obtain your views on risk of fraud and other matters. We make similar inquiries of management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly.







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