

# COMMITTEE AGENDA

## CONSOLIDATED AS OF JANUARY 29, 2016

TO **Audit Committee**

DATE Tuesday, February 2, 2016

LOCATION Council Chambers

TIME 2:00 p.m.

### DISCLOSURE OF PECUNIARY INTEREST AND GENERAL NATURE THEREOF

**CONFIRMATION OF MINUTES** – November 3, 2015 open meeting minutes

**PRESENTATIONS** (Items with no accompanying report)

a) None

### CONSENT AGENDA

*The following resolutions have been prepared to facilitate the Committee's consideration of the various matters and are suggested for consideration. If the Committee wishes to address a specific report in isolation of the Consent Agenda, please identify the item. The item will be extracted and dealt with separately. The balance of the Audit Committee Consent Agenda will be approved in one resolution.*

ITEM	CITY PRESENTATION	DELEGATIONS	TO BE EXTRACTED
AUD-2016.1 Internal Audit 2016 – 2018 Work Plan	Ruvani Shaubel, Internal Auditor		✓
AUD-2016.2 Purchase Card Audit	Ruvani Shaubel, Internal Auditor		✓
AUD-2016.3 External Audit Service Plan	Matthew Betik, Partner, KPMG LLP (presentation)		✓
AUD-2016.4 2015 Final Audit Committee Work Plan Report			
AUD-2016.5 2016 Audit Committee Work Plan			
AUD-2016.6 Outstanding Motions of the Audit Committee			

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AUD-2016.7 Litigation Status Report			
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Resolution to adopt the balance of the Audit Committee Consent Agenda.

**ITEMS EXTRACTED FROM CONSENT AGENDA**

Once extracted items are identified, they will be dealt with in the following order:

- 1) delegations (may include presentations)
- 2) staff presentations only
- 3) all others.

**STAFF UPDATES AND ANNOUNCEMENTS**

**ADJOURNMENT**

**NEXT MEETING** – April 5, 2016



cutting through complexity

AUDIT

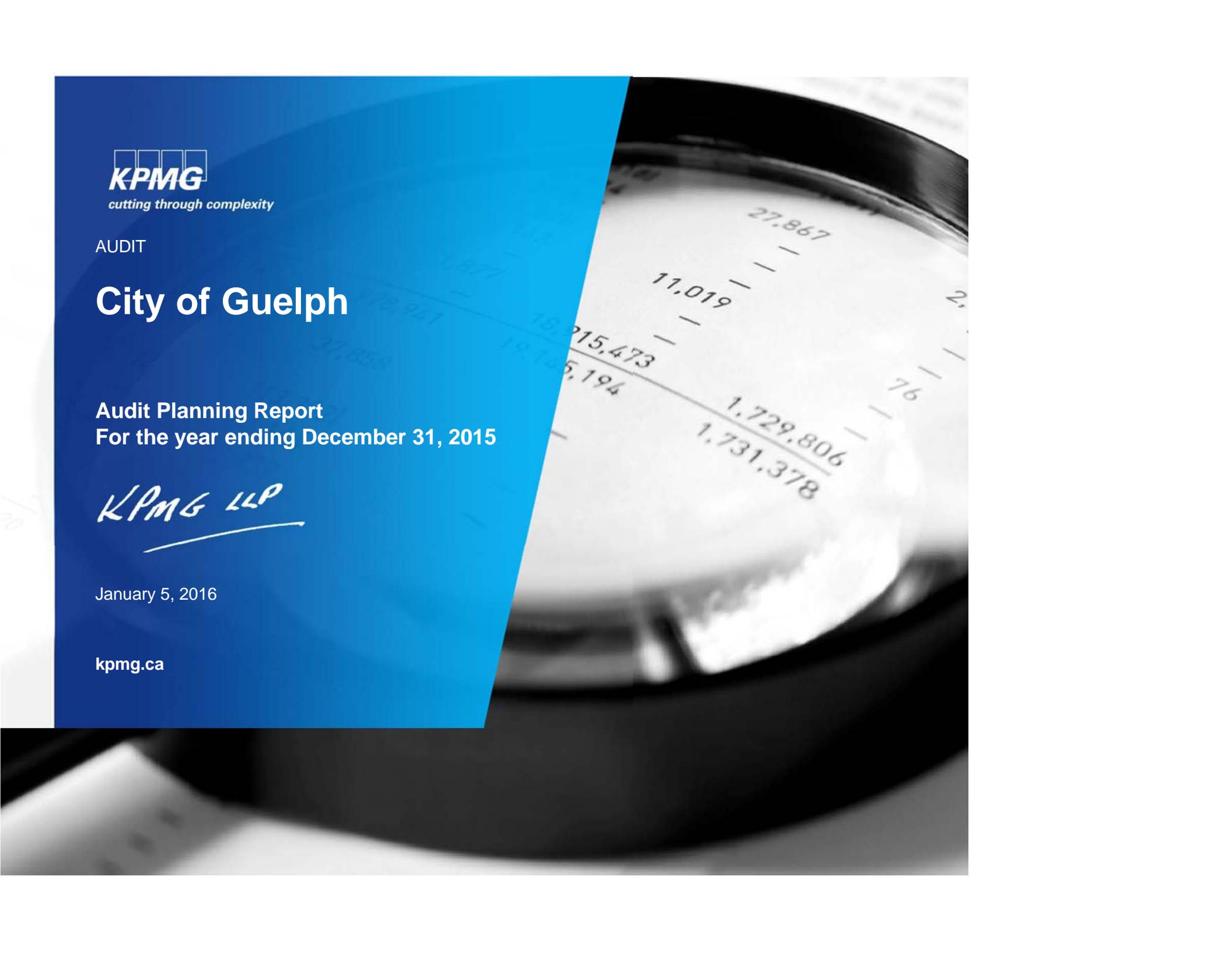
# City of Guelph

Audit Planning Report  
For the year ending December 31, 2015

*KPMG LLP*

January 5, 2016

kpmg.ca



The contacts at KPMG in connection with this report are:

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## Table of Contents

<b>Executive summary</b>	<b>3</b>
<b>Accounting Standards Update</b>	<b>4</b>
<b>Audit approach</b>	<b>5</b>
<b>Materiality</b>	<b>8</b>
<b>Value for fees</b>	<b>9</b>
<b>Audit cycle and timetable</b>	<b>10</b>
<b>Appendices</b>	<b>11</b>
<b>Appendix 1: Audit Quality and Risk Management</b>	<b>12</b>
<b>Appendix 2: KPMG's audit approach and methodology</b>	<b>13</b>
<b>Appendix 3: Required communications</b>	<b>14</b>

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

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

# Executive summary

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## 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:

- New accounting standard for contaminated sites
- Tangible Capital Assets,
- Post-employment benefits,
- Obligatory Reserve Fund Revenue,

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## KPMG team

The KPMG team will be led by Matthew Betik and Brendan Hall. Subject matter experts will be involved, if necessary.

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## Audit Materiality

Materiality has been determined based on revenue. We have determined materiality to be \$6,000,000 for the year ending December 31, 2015. The amount is based on revenues, adjusted to account for certain social services that are administered by the County.

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## Effective communication

We are committed to transparent and thorough reporting of issues to the Treasurer, Deputy CAO-Corporate Services, senior management and the Audit Committee.

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## Independence

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services provided.

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## Audit Scope

Our audits include the following separate audit reports:

- *Consolidated Financial Statements*
- *Downtown Guelph Business Association*
- *Wellington-Dufferin-Guelph Public Health (audit + special reports)*
- *Guelph Junction Railway Limited*
- *Provincial Offences Court Program*
- *Guelph Municipal Holdings Inc.*
  - *Guelph Hydro Inc.*
  - *Envida Community Energy Inc.*
- *The Elliott Community*

# Accounting Standards Update

## PSAB 3260 – Liability for Remediation and Mitigation of Contaminated Sites

- In March 2010, the Public Sector Accounting Standards Board approved PSAB 3260, Liability for Remediation and Mitigation of Contaminated Sites
- This new standard provides guidance on liabilities arising from contaminated lands.
- A liability for remediation of contaminated sites should be recognized when:
  - a) An environmental standard exists,
  - b) Contamination exceeds the environmental standard,
  - c) The government is directly responsible or accepts responsibility,
  - d) It is expected that future economic benefits will be given up, and
  - e) A reasonable estimate of the amount can be made.
- The standard is effective for the City's 2015 fiscal year end and must be applied retrospectively (i.e., prior periods will be restated)
- Management has already taken significant steps in the implementation of this new and complex standard.

# 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 because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

## CAS requirement

## Why

## Our audit

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, 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 or “channel” stuffing would be utilized to perpetrate fraud.

Not applicable.

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 (continued)

Other areas of focus include the following:

Other areas of focus	Why	Our audit
Post-employment benefits	<ul style="list-style-type: none"> <li>Estimates and judgements used by management</li> <li>Complexity of the accounting guidance</li> </ul>	<ul style="list-style-type: none"> <li>Communicate with management's actuarial specialists</li> <li>Assess the reasonableness of assumptions used, and</li> <li>Test the appropriateness of the underlying data, including employee populations</li> </ul> <p>We will also use the work of Nexus (Actuarial Consultant) in our audit of the accounts and disclosures.</p>
Obligatory Reserve Funds Revenue and Deferred Revenue	<ul style="list-style-type: none"> <li>Revenue recognized from the Development Charge Reserve Fund is subject to judgement as capital projects must be development in nature</li> </ul>	<ul style="list-style-type: none"> <li>Test controls around the recording of revenues/cash receipts</li> <li>Identify and evaluate the operative effectiveness of internal controls over the identification of development charge funding projects and allocation of related expenses</li> <li>Perform substantive testing over amounts being recognized as revenue</li> </ul>
Tangible Capital Assets	<ul style="list-style-type: none"> <li>Significance of the account balances</li> <li>Risk of error in inappropriately recognizing costs as either capital or operating</li> </ul>	<ul style="list-style-type: none"> <li>Discuss capitalization policies and their application with management</li> <li>Test a sample of capital additions to ensure existence and accuracy</li> <li>Test items recorded as repairs &amp; maintenance or other similar accounts to ensure completeness of capital additions</li> </ul>

# Audit approach (continued)

Other Significant Accounts	Other Significant Accounts	Our audit approach
	Investments and related income	<ul style="list-style-type: none"> <li>• Confirmation of details with investment managers</li> </ul>
	Debt	<ul style="list-style-type: none"> <li>• Confirmation of debt balances outstanding to ensure completeness and accuracy</li> </ul>
	Taxation Revenue	<ul style="list-style-type: none"> <li>• Analytical procedures recalculating tax revenue using approved tax rates and related MPAC assessments</li> </ul>
	User Charge Revenue	<ul style="list-style-type: none"> <li>• Testing of internal controls over cash receipts and recording</li> <li>• 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</li> </ul>
	Expenses	<ul style="list-style-type: none"> <li>• Evaluate the design and implementation of controls over payroll and non-payroll expenses</li> <li>• Testing the operating effectiveness of key internal controls</li> <li>• 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</li> <li>• Testing the completeness, existence, and accuracy of year end accruals, most notably those that contain areas of estimate of judgment</li> </ul>
	Landfill Liabilities	<ul style="list-style-type: none"> <li>• Review schedule and assess the reasonability of assumptions used</li> <li>• Recalculation performed over estimated liability as at 12/31/2015</li> </ul>

# 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 judgment and is based on a combination of quantitative and qualitative assessments including the nature of account balances and financial statement disclosures:

2015 materiality determination	Comments	
Benchmark	Based on adjusted revenue.	\$372.6 million
% of Benchmark	Materiality as a percentage of gross benchmarks typically are within 0.5 and 3.0%.	1.6%
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.	\$6 million
Performance materiality	75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures	\$4.5 million
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit	\$300 thousand
Reclassification AMPT	Threshold used to accumulate reclassification misstatements during the audit	\$750 thousand

# 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 fees for the 2015 audit will be in accordance with our quoted fees in the most recent proposal for external audit services.

## 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 Entity 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 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.**

Our timeline is in line with prior year.

Key deliverables and expected dates	
Deliverables	Expected date(s)
Conduct interim audit field work	December 2015
Conduct year-end audit field work	April 2016
Present audit findings to the Audit Committee	June 2016
Provide audit opinion on financial statements	June 2016

# Appendices

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

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

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**Appendix 3: Required communications**

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# Appendix 1: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

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

- Other controls include:
  - Before the firm issues its audit report, Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
  - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.



- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.
- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
  - Assignment based on skills and experience;
  - Rotation of partners;
  - Performance evaluation;
  - Development and training; and
  - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

# Appendix 2: KPMG's audit approach and methodology

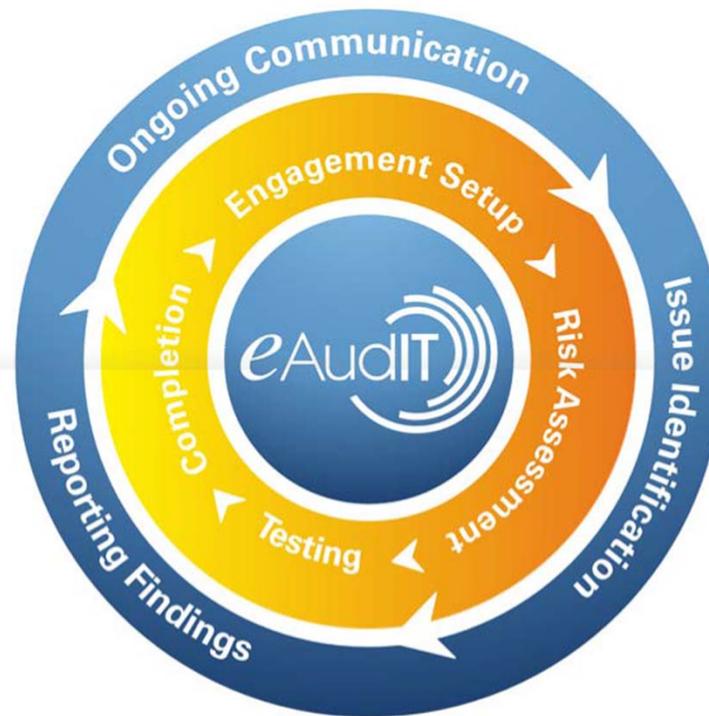
## Technology-enabled audit work flow (eAudit)

### Engagement Setup

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

### Completion

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



### Risk Assessment

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

### Testing

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

## 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 letter and any subsequent amendment letters. There are no required amendments for the 2015 fiscal year.
- **Fraud related inquiries** – professional standards required that during the planning of our audit we obtain your views on risk of fraud. 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 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** – we will provide this report at the completion of our audit to the Audit Committee
- **Annual independence letter** – we will provide this letter at the completion of our audit to the Audit Committee

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