

Wellington- Dufferin- Guelph Public Health

Prepared on February 18, 2021 for
the Audit Committee meeting in
March 2021

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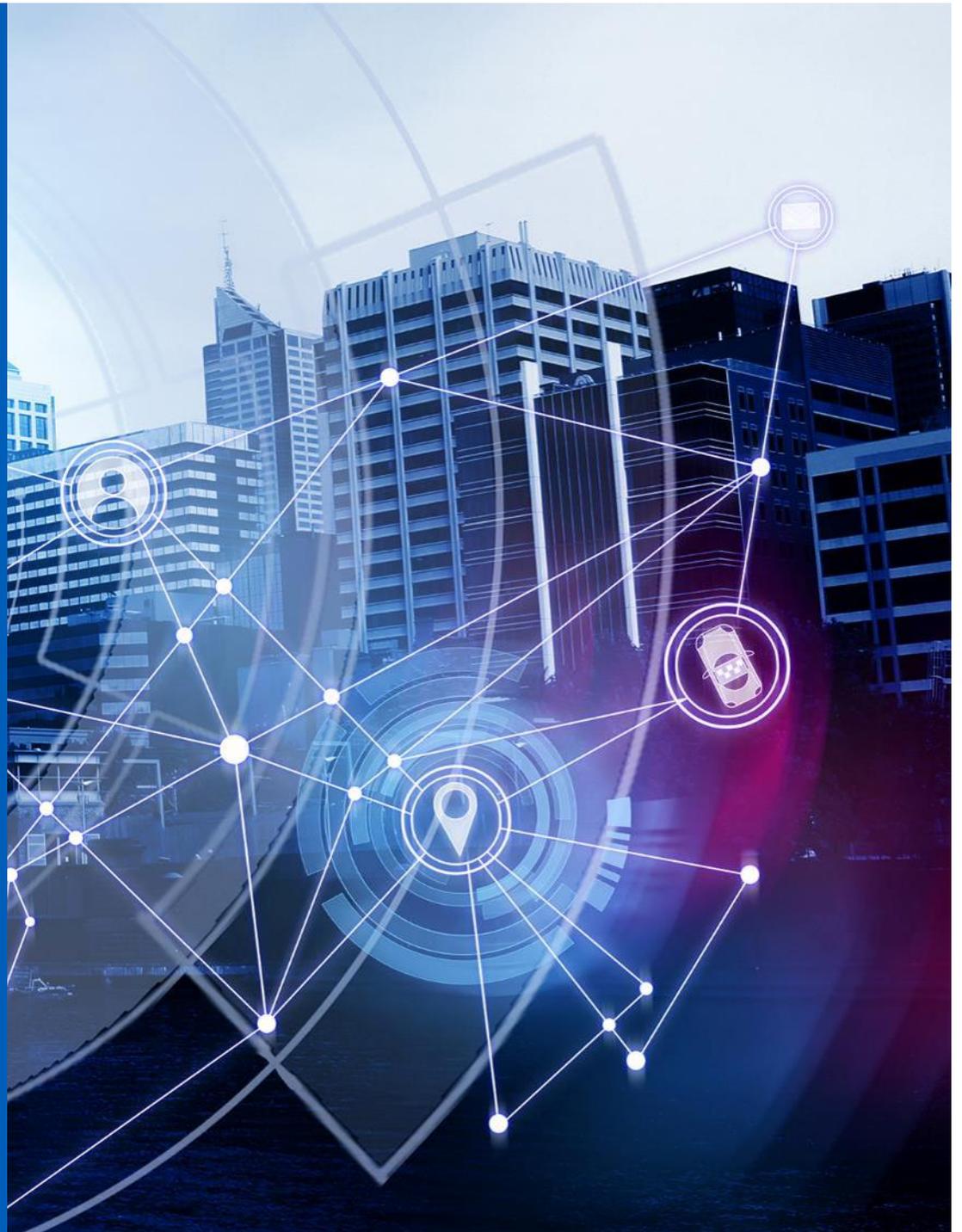


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Executive summary

COVID-19

COVID-19 is undoubtedly having an impact on the Health Unit's operations and will have an impact on the Health Unit's financial reporting. See pages 2-3

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:

- Salary & wages Expense
- Tangible capital assets
- Payable & accruals

Audit materiality

Materiality has been determined based on revenue. We have determined materiality to be \$700,000.

Quality control

We have a robust and consistent system of quality control. We provide complete transparency on all services and follow Audit Committee approved protocols.

Proposed fees

Proposed fees for the annual audit are \$19,000 and is in accordance with our submitted proposal for audit services on August 13, 2020.

Current developments and audit trends

Please refer to pages 15-16 and Appendix 3 for accounting and/or auditing changes relevant to the Health Unit and relevant audit trends.

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COVID-19: Embedding Resilience & Readiness

COVID-19 is undoubtedly having an impact on the Health Unit's operations and its financial reporting.

Potential financial reporting implications	Potential implications on internal control over financial reporting
<p>Refer to our COVID-19 Financial Reporting site:</p> <ul style="list-style-type: none">• Impairment of non-financial assets (e.g., tangible capital assets)<ul style="list-style-type: none">◦ Analysis of triggering events and impairment testing (e.g cash flow forecasts and assumptions)• Impairment of financial assets (e.g., financial instruments)• Fair value measurements• Employee benefits and employer obligations• Provisions, contingencies and onerous contracts• Revenue-cycle (process) accounting (e.g. contracts with customers)• Subsequent events	<ul style="list-style-type: none">• Reconsideration of financial reporting risks, including fraud risks, given possible new pressures on management or new opportunities to commit fraud given changes in internal controls over financial reporting or to bias estimates• New or enhanced controls to respond to new financial reporting risks or elimination of on-site preventative controls• Consideration of changes in the individuals performing the control• Consideration of the appropriateness of segregation of duties• Revisions may be needed for internal audit visits planned• Reconsideration of internal control impacts related to broader IT access given remote work arrangements

Potential financial reporting implications related to disclosures	Other potential considerations
<p>Refer to our COVID-19 Financial Reporting site:</p> <ul style="list-style-type: none">• New accounting policies• Significant judgements in applying accounting policies• Major sources of estimation uncertainty that have significant risk• Liquidity risks	<ul style="list-style-type: none">• Reporting material changes in internal controls over financial reporting• Cyber security risks (e.g., wire transfers schemes)

COVID-19: Embedding Resilience & Readiness (Continued)

Similarly, COVID-19 is a major consideration in the development of our audit plan for your 2020 financial statements

Potential audit implications

Planning and risk assessment

- Understanding the expected impact on the relevant metrics for determining materiality (including the benchmark) and the implication of that in identifying the risks of material misstatement, responding to such risks and evaluating uncorrected misstatements
- Understanding the potential financial reporting impacts, the changes in Entity's environment, and changes in the entity's system of internal control, and their impact on our:
 - identified and assessed risks of material misstatement
 - audit strategy, and the nature, timing and extent of tests of controls and substantive procedures

Executing

- Remote auditing
 - Increased use of other collaboration tools (Facetime, Skype, Teams, etc.) and the need for written management acknowledge for their use
 - Potential increased use of electronic evidence (and understanding the Entity's processes to provide such evidence to us)
- Timing of procedures may need to change
 - Tests of controls may need to be deferred (to allow the Entity to put new or revised controls in operation and to be able to re-perform such controls)

Audit risks

Professional requirements

Risk of material misstatement due to fraud resulting from fraudulent revenue recognition.

Why is it significant?

We have determined that this risk is rebuttable, given the Health Unit is not a for-profit focussed operation and due to the fact the revenue streams are not complex.

Audit risks (continued)

Professional requirements

Risk of material misstatement due to fraud resulting 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 this presumed risk of material misstatement due to fraud 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 (continued)

Other areas of focus

Cash

Why are we focusing here?

— Significance to Health Unit

Our audit approach

- We will confirm directly with the entity's financial institution the bank balances as at December 31, 2020, maintaining custody of the submission and receiving of the confirmation process
- We will obtain bank reconciliations and test a sample of reconciling items as at year-end

Audit risks (continued)

Other areas of focus

Accounts payable

Why are we focusing here?

— Significant for the Health Unit

Our audit approach

- We will perform testing to gain assurance over the existence and accuracy of payables and accruals
- We will perform a search for unrecorded liabilities to ensure that amounts paid in 2021 or invoices entered into the general ledger in 2021, to the degree they pertain to 2020 activities they are appropriately accrued for as at December 31, 2020

Audit risks (continued)

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 expensed

Our audit approach

- Discuss capitalization policies and their application with management
- Test a sample of capital additions to ensure existence and accuracy
- Test items recorded as repairs and maintenance or other similar accounts to ensure completeness of capital additions
- We will review a sample of disposals for Fiscal 2020 to assess the gain/loss recorded within the general ledger
- We anticipate some additional work with respect to the Adoption of CAS 540 – Auditing Accounting Estimates & Related Disclosures
- KPMG will assess management’s estimated useful lives of Tangible Capital Assets to assess the reasonability of useful lives that drive amortization expense

Audit risks (continued)

Other areas of focus

Payroll and related expenses

Why are we focusing here?

Represents the largest class of expenditures for the Health Unit, approximately 70%

Our audit approach

- Control testing performed
 - Detailed procedures over payroll expenses including:
 - Testing of year end accruals
 - Direct testing of payroll costs
 - FTE and wage rate analysis
-

Materiality

Materiality is used to identify risks of material misstatements, develop an appropriate audit response to such risks, 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.

Materiality determination	Comments	Amount
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. Prior year materiality was \$675K.	\$700,000
Benchmark	Based on budgeted revenues for the year. This benchmark is consistent with the prior year.	\$28,000,000
% of Benchmark	The corresponding percentage for the prior year's audit was 2.5%	2.5%
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit.	\$35,000

We will report to the Audit Committee:



Corrected audit misstatements



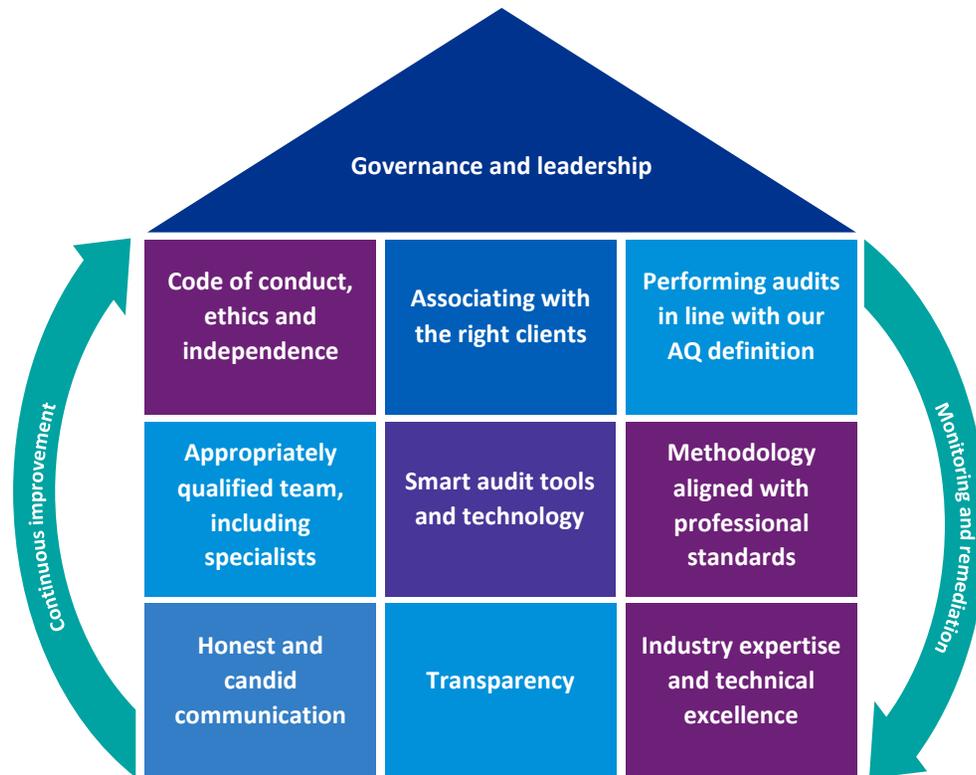
Uncorrected audit misstatements

Audit Quality Matters



Audit quality and transparency

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.

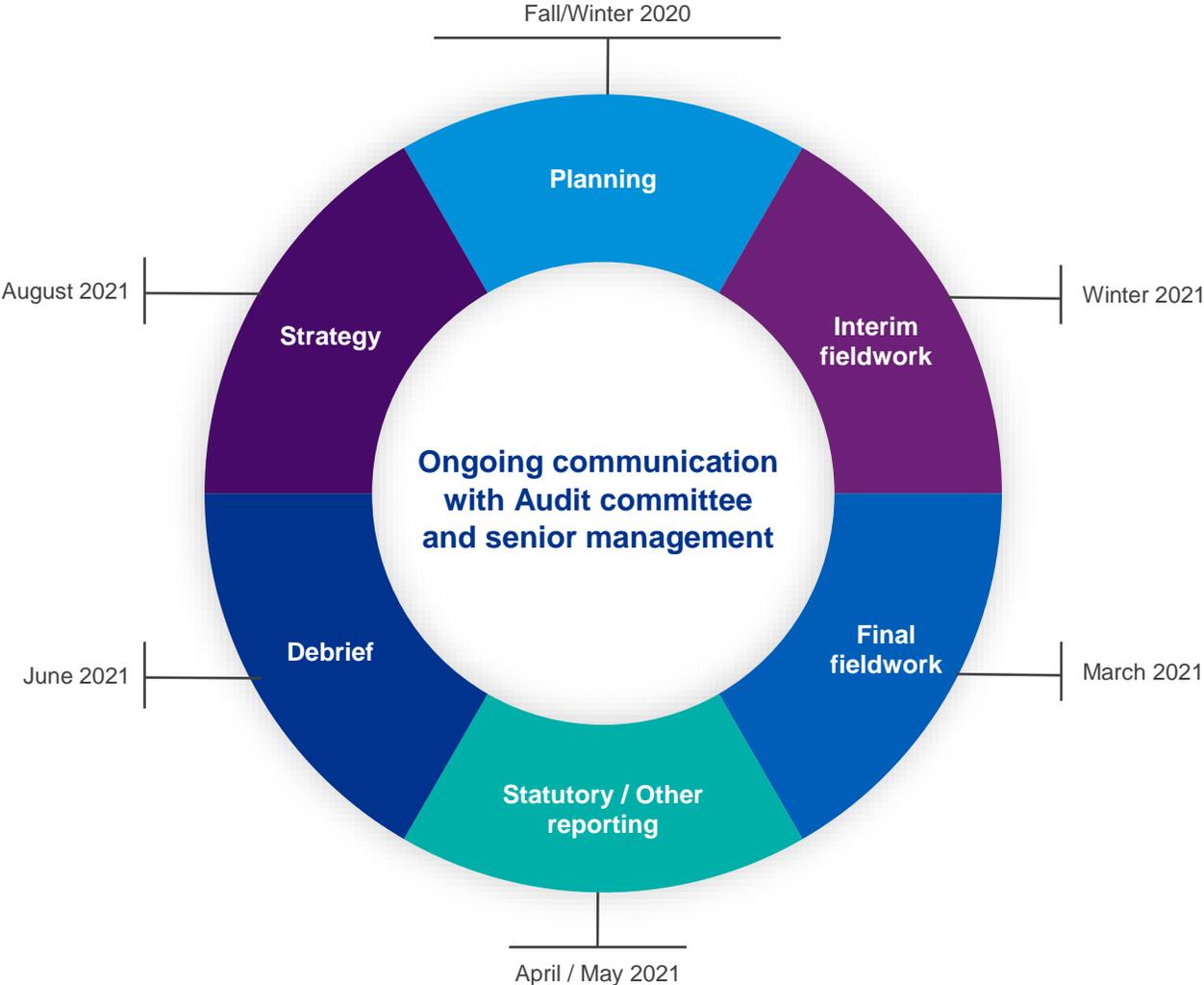
We believe that it is not just about reaching the right opinion, but how we reach that opinion.

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](#).

Key deliverables and milestones



New audit and accounting standards

New auditing and accounting standards that are effective for the current year are as follows:

Standard	Key observations
PS 3250, Employee Benefits	<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.</p>
PS 3280, Asset Retirement Obligations	<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, 2022 (the Health Unit's December 31, 2023 year end).</p> <p>Implications: The Health Unit will have to identify if they have any asset retirement obligations</p>
Public Private Partnerships	<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>
PS 3400, Revenue	<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>This standard will be in effect for fiscal years beginning on or after April 1, 2023 (the Health Unit's December 31, 2024 yearend). Earlier adoption is permitted.</p>

CAS 540, Auditing Accounting Estimates and Related Disclosures

Effective for audits of Entities with year-ends on or after December 15, 2020

Expected impact on the audit:

- more emphasis on the need for exercising professional skepticism
 - more granular risk assessment to address each of the components in an estimate (method, data, assumptions)
 - more granular audit response designed to specifically address each of the components in an estimate (method, data, assumptions)
 - more focus on how we respond to levels of estimation uncertainty
 - more emphasis on auditing disclosures related to accounting estimates
 - more detailed written representations required from management
-

Independenc e Matters



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)	Prior period (actual)
Audit of the financial statements – base audit	\$19,000 Note A	\$17,637
Adoption of CAS 540 – Auditing Accounting Estimates & Related Disclosures	\$1,750	N/A

Matters that could impact our fee

The proposed fees outlined above are based on the assumptions described in the engagement letter and consistent with fees detailed in the contract entered into in 2016.

The following factors could cause a change in our fees:

- Significant changes to the relevant financial reporting framework
- Significant new or changed accounting policies or application thereof
- Significant changes to internal control over financial reporting
- Significant unusual and/or complex transactions
- New audit standards or requirements arising as a result of changes in audit standards
- Changes in the timing of our work
- Other significant issues (e.g. cyber security breaches)
- Any accounting advice
- Delays in requested information

Note A: The fee is estimated, in connection with our 2020 proposal to the City of Guelph (which included the Health Unit), there is an inflationary element to a base fee that is calculated on a pricing index annually. This figure will vary in future years from what is presented above.

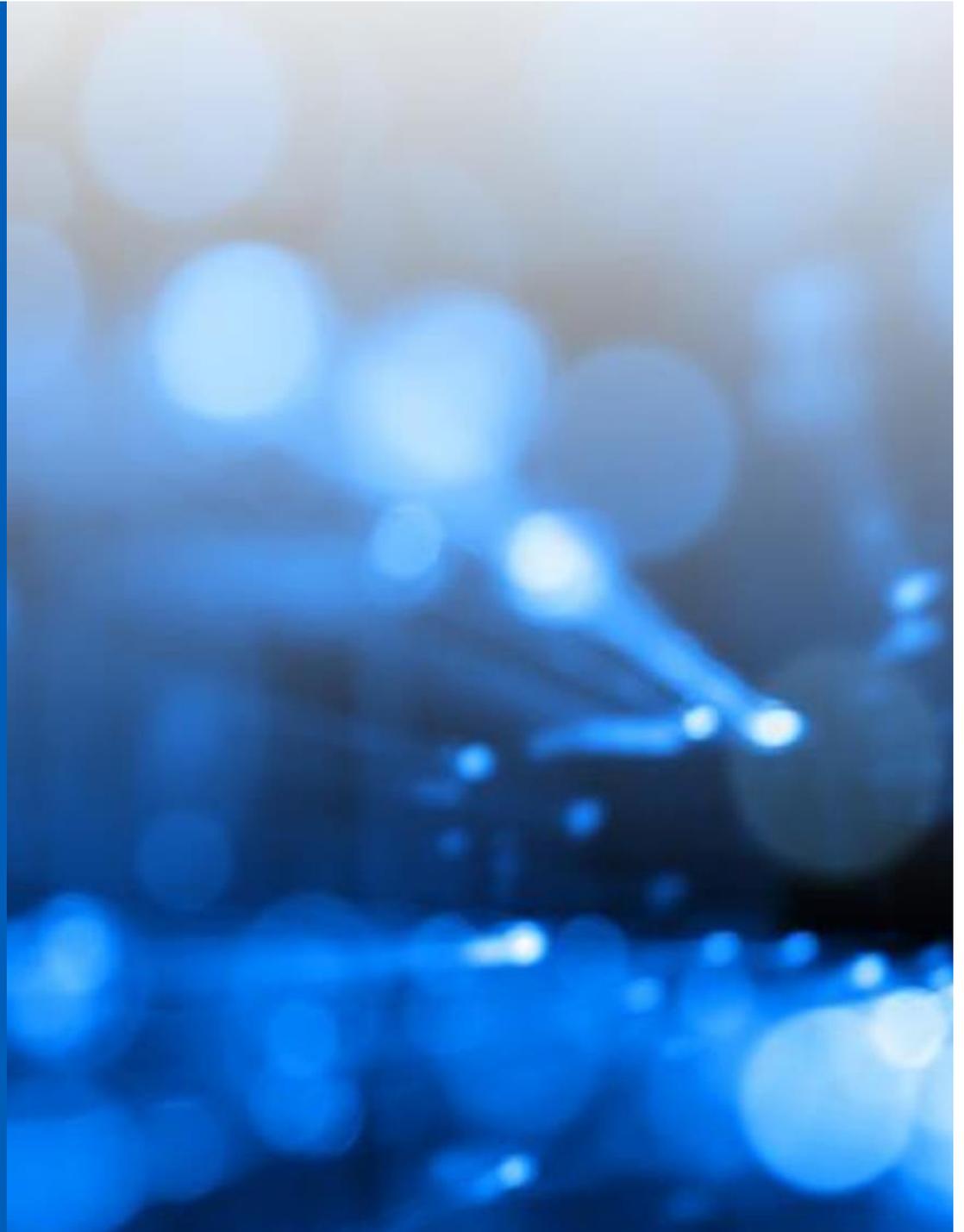
Appendices

Content

Appendix 1: Required communications

Appendix 2: KPMG's audit approach and methodology

Appendix 3: Audit and Assurance Insights



Appendix 1: Required communications

Report	Engagement terms
A draft report will be provided at the completion of the audit.	Unless you inform us otherwise, we understand that you acknowledge and agree to the terms of the engagement set out in the engagement letter and any subsequent amendments as provided by management.
Reports to the Audit Committee	Representations of management
At the completion of the audit, we will provide our findings report to the Audit Committee.	We will obtain from management certain representations at the completion of the audit.
Required inquiries	Internal control deficiencies
Professional standards require that during the planning of our audit we obtain your views on the identification and assessment of risks of material misstatement, whether due to fraud or error, your oversight over such risk assessment, identification of suspected, alleged or actual fraudulent behaviour, and any significant unusual transactions during the period.	Other control deficiencies, identified during the audit, that do not rise to the level of a significant deficiency will be communicated to management.

Appendix 2: KPMG's audit approach and methodology

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: Audit and Assurance Insights

Our latest thinking on the issues that matter most to Audit Committees, Boards and Management.

Featured insight	Summary	Reference
Audit & Assurance Insights	Curated thought leadership, research and insights from subject matter experts across KPMG in Canada	<u>Learn more</u>
The business implications of coronavirus (COVID 19)	Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat.	<u>Learn more</u>
	Financial reporting and audit considerations: The impact of COVID-19 on financial reporting and audit processes.	<u>Learn more</u>
	KPMG Global IFRS Institute - COVID-19 financial reporting resource center	<u>Learn more</u>
Accelerate 2019/20	Perspective on the key issues driving the Audit Committee agenda	<u>Learn more</u>
Momentum	A quarterly Canadian newsletter which provides a snapshot of KPMG's latest thought leadership, audit and assurance insights and information on upcoming and past audit events – keeping management and board members abreast on current issues and emerging challenges within audit.	<u>Sign-up now</u>



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