

Audit Plan for the Year Ending December 31, 2020

Date:	November 16, 2020
To:	Toronto Public Library Board
From:	City Librarian

SUMMARY

The attached report from KPMG LLP, the external auditors, summarizes the planning for their audit of the 2020 financial statements for the Toronto Public Library Board.

FINANCIAL IMPACT

The proposed audit fee of \$45,000, inclusive of expenses and exclusive of Harmonized Sales Tax, which is an increase of \$18,000 over the \$27,000 of fees paid to PricewaterhouseCoopers for the 2019 audit, is funded by the 2020 operating budget. It is important to note that the audit fee does not include extra audit work that may be required due to scope changes, and KPMG will advise management as soon as possible if this were to happen.

The Director, Finance & Treasurer has reviewed this financial impact statement and agrees with it.

ISSUE BACKGROUND

Under Section 139 of the City of Toronto Act, 2006, the City is required to appoint an auditor licensed under the Public Accounting Act, 2004, who is responsible for annually auditing the accounts and transactions of the City and its local boards, and expressing an opinion on the financial statements of these entities based on the audit.

The City issued a request for proposal for external audit services, including the Toronto Public Library Board for 2020 to 2024, and KPMG was the successful proponent. Council, at its June 29 and 30 2020 meeting, approved the recommendation of the Audit Committee to appoint KPMG as the external auditor for the City and Library. This is the first year of a five-year audit contract that the City has negotiated. The fee from

2020 to 2024 will total \$245,000, inclusive of expenses and exclusive of Harmonized Sales Tax. The contract with KPMG will end with the audit of the December 31, 2024 financial statements.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.AU5.7>

As part of the annual audit, KPMG provides an Audit Planning Report to the Toronto Public Library Board. The auditors will conduct their audit of the 2020 financial statements pursuant to this plan.

COMMENTS

Attached is KPMG's Audit Planning Report for the Library for the year ending December 31, 2020, which includes their views on the impact of COVID-19 on the audit, audit and business risks, audit materiality and current developments and audit trends.

On completion of the audit, KPMG will issue the Audited Financial Statements and a year-end report to the Board that will provide significant audit, accounting and financial reporting matters, internal control recommendations and a confirmation of auditor independence.

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SIGNATURE

Vickery Bowles
City Librarian

ATTACHMENTS

Attachment 1: Toronto Public Library Board – Audit Planning Report for the year ending December 31, 2020

Toronto Public Library Board

(An entity controlled by the City of Toronto)

Audit Planning Report
for the year ending
December 31, 2020

KPMG LLP

Licensed Public Accountants

Prepared on October 21, 2020

kpmg.ca/audit



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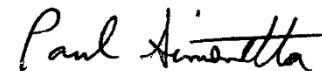
A message from Kevin Travers and Paul Simonetta

We want to take this opportunity to share how excited we all are to be working with you as the auditor of the City of Toronto including the Agencies and Corporations of the City of Toronto (the “City”) commencing with the year ending December 31, 2020.

We are eager to work with your teams and build new relationships across the various entities. We are personally looking forward to working with all of you.

In our roles as the Lead Audit Engagement Partner and Executive Relationship Partner, we will both be directly involved in the provision of audit services. Kevin will provide overall direction and leadership to our broader KPMG team and serve as KPMG’s main point of contact with the City as well as numerous Agencies and Corporations. In this role, Kevin will take the lead in defining the teams’ conclusions, act as a sounding board on business matters, and be responsible for the quality of all the services we provide. Paul will make use of his authority as the Business Unit Leader for KPMG LLP’s Toronto audit practice to ensure that we bring the top resources and audit services to the City and will follow up to ensure that our performance exceeds your expectations.

We believe in open two-way communication and we would encourage you to reach out for any questions, concerns, or comments.



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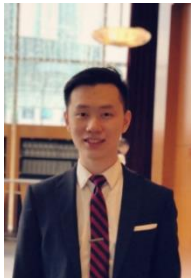


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Executive summary

The purpose of this Audit Planning Report is to assist you, as a Member of the Board, in your review of the planning of our audit of the financial statements (the “financial statements”) of Toronto Public Library Board (the “Entity”) as at and for the year ending December 31, 2020.

COVID-19

COVID-19 is undoubtedly going to have an impact to the Entity’s business and the Entity’s financial reporting.

See pages 2 to 3.

Group reporting

The Entity is controlled by the City of Toronto (the “City”) and thus the Entity’s financial results get consolidated into the City’s consolidated financial statements. The audit engagement team for the City (the “Group auditor”) has noted that they will use the work of our audit and the auditors’ report related to the Entity’s financial statements. The Entity is considered a non-significant component for the audit engagement of the City i.e. the group audit.

In accordance with Canadian auditing standards, we will be communicating matters of significance to the group auditor throughout the audit including planning and risk assessment, execution and reporting.

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.

See pages 4 to 9.

This Audit Planning Report should not be used for any other purpose or by anyone other than the Members of the Board, and Management of the Entity. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Planning 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 materiality

Materiality has been determined based on total budgeted expenses.

Quality control

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

See pages 12 -13.

Initial audit engagement

The year ending December 31, 2020 will be KPMG’s first year as the auditor of the Entity. The Entity’s financial statements for the year ending December 31, 2019 were audited by a different audit firm. As part of our risk assessment process, we have completed our review of predecessor working papers. Our auditors’ report will include an ‘other matter’ paragraph to note the change in auditor.

Current developments and audit trends

Please refer to pages 16 to 18 for relevant accounting and/or auditing changes relevant to the Entity and relevant audit trends.

COVID-19: Embedding Resilience & Readiness

COVID-19 is undoubtedly going to have an impact to the Entity's business and the Entity's financial reporting.

Potential financial reporting implications

Refer to our [COVID-19 Financial Reporting](#) site:

- Events or conditions that cast significant doubt regarding going concern
 - Determining plans to mitigate such conditions or events (e.g., debt restructuring)
 - Evaluating ability to carry out those plans in light of the current conditions
- Impairment of non-financial assets (e.g., Tangible Capital Assets)
 - Analysis of triggering events and impairment testing (e.g cash flow forecasts and assumptions)
- Investments, to evaluate for any permanent impairment in investment
- Accounts receivable, to determine the collectability of certain receivables
- Accrued liabilities, to ensure completeness of liabilities including severance and others in light of the pandemic
- Enhanced audit risk around cut-off of liabilities
- Government assistance related to Canadian Emergency Wage Subsidy (CEWS) [please note that our procedures provide no assurance related to the eligibility criteria for CEWS]
- Contingent gains and losses
- Incremental expenses due to COVID-19
- Impact on funding received from federal and provincial government
- Impact of COVID-19 on programs and operations managed by the Entity
- Impact of COVID-19 on capital projects managed by the Entity
- Subsequent events

Potential implications on internal control over financial reporting

- Reconsideration of financial reporting risks, including fraud risks, given possible new pressures on management or new opportunities to commit fraud given changes in Internal Control over Financial Reporting (ICFR) or to bias estimates
- New or enhanced controls, including those that may need to occur at quarter-end, to respond to new financial reporting risks or elimination of on-site preventative controls
- Consideration of changes in the individuals performing the control (e.g. re-directing the performance to head-office)
- Consideration of the appropriateness of segregation of duties because of a potential reduction in the number of employees
- Revisions may be needed for internal audit visits planned
- Plan for inventory counts may need to be re-considered (e.g. cycle-counts) to ensure all inventory is counted once during the year
- Reconsideration of ICFR impacts related to broader IT access given remote work arrangements

Potential financial reporting implications related to disclosures

Refer to our [COVID-19 Financial Reporting](#) site:

- Events and conditions that cast significant doubt regarding going concern
- New accounting policies
- Significant management judgements in applying accounting policies
- Major sources of estimation uncertainty that have significant risk
- Liquidity risks

Other potential considerations

- Reporting material changes in ICFR
- Cyber security risks (e.g., wire transfers schemes)
- Possible delay in filing annual financial statements

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, including the involvement of others (e.g., our internal specialists or use of internal audit's work or internal audit in a direct assistance capacity) and the nature, timing and extent of tests of controls and substantive procedures.

Executing

- Remote auditing
 - Increased use of other collaboration tools (TEAMS, Skype etc.) and the need for written management acknowledgment 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).

Relevant factors affecting our risk assessment

Audit risks

Relevant factors affecting our risk assessment

Complexity



Estimate



Related party transaction



Professional requirements

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

Why is it significant?

This is a presumed fraud risk, which has not been rebutted.

Fraud could include misappropriation of funds, overstatement of revenue through posting manual journal entries and manipulation of cut-off.

Our audit approach

Our audit methodology incorporates the required procedures in professional standards to address this risk. We test journal entries that meet specific criteria. This criteria is designed during the planning phase of the audit and is based on areas and/or accounts that are susceptible to manipulation through management override and/or we design search filters that allow us to identify any unusual journal entries.

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 risk of material misstatement due to fraud.

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)

Areas of focus	Why are we focusing here?
City of Toronto Revenue Province of Ontario Revenue Federal Government Revenue	These streams of revenue are financially significant.

Our audit approach

COVID-19 Implications:

- We will hold discussions with management to understand changes to funding received from federal and provincial government in light of COVID-19 global pandemic.

Performing substantive procedures:

- We will obtain confirmations from federal and provincial government.
- We will substantively vouch funding revenue transactions to supporting documents such as the funding letter and proof of payment.

Audit risks (continued)

Other areas of focus	Why are we focusing here?
Cash and Investments	Material account balances and disclosures
Tangible Capital Assets	Material account balances and disclosures
Our audit approach	
<p><i>COVID-19 Implications:</i></p> <ul style="list-style-type: none">— We will evaluate for any permanent impairment in investment. <p><i>Performing substantive procedures:</i></p> <ul style="list-style-type: none">— We will review year-end bank and investment reconciliations and substantive testing and significant reconciling items.— We will use substantive test of details over additions and disposals of investments.— We will obtain confirmations from third parties.— We will review of financial statement note disclosure.	
<p><i>COVID-19 Implications:</i></p> <ul style="list-style-type: none">— We will perform analysis of triggering events and impairment of Tangible Capital Assets. <p><i>Performing substantive procedures:</i></p> <ul style="list-style-type: none">— We will substantively test capital additions and disposals to supporting documentation.— We will review amortization policy and recalculations.— We will review management’s impairment assessment.	

Audit risks (continued)

Other areas of focus	Why are we focusing here?
Accounts Receivable	Material account balances and disclosures
Accounts payable and accrued liabilities	Material account balances and disclosures
Our audit approach	
<p><i>COVID-19 Implications:</i></p> <ul style="list-style-type: none">— We will evaluate the collectability of certain aged receivables. <p><i>Performing substantive procedures:</i></p> <ul style="list-style-type: none">— We will perform substantive testing on accounts receivable balances, including confirmations from lower tier municipalities.— We will assess the valuation of accounts receivable.— We will obtain confirmations from related parties for balances due.	
<p><i>COVID-19 Implications:</i></p> <ul style="list-style-type: none">— We will perform procedures to ensure completeness of liabilities in light of the pandemic. <p><i>Performing substantive procedures:</i></p> <ul style="list-style-type: none">— We will examine accruals for accuracy and completeness.— We will substantively test significant payables and accruals to source documents.— We will perform a search for unrecorded liabilities.	

Audit risks (continued)



Other areas of focus	Why are we focusing here?
Employee benefit obligations	Material account balances and disclosures
Expenses	Material account balances and disclosures
Our audit approach	
<i>Performing substantive procedures:</i> <ul style="list-style-type: none">— We will obtain actuarial confirmations and review assumptions in the valuations.— We will review disclosures.	
<i>COVID-19 Implications:</i> <ul style="list-style-type: none">— We will evaluate the incremental expenses due to COVID-19.	
<i>Performing substantive procedures:</i> <ul style="list-style-type: none">— We will substantively vouch a sample of expense transactions to supporting documents.— We will evaluate the operating effectiveness of controls for the payroll reconciliation and approval process.— We will substantively test payroll expenses.	

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	<p>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.</p> <p>The corresponding amount for the prior year's audit was 6.6 million*.</p> <p>*This figure was determined by another audit firm, who conducted the audited in the prior year</p>	\$ 6.25 million
Benchmark	<p>Based on an estimate of total budgeted expenses for the year.</p> <p>This benchmark is consistent with the prior year.</p>	\$ 250 million
% of Benchmark	The corresponding percentage for the prior year's audit was 3%	2.5 %
Performance Materiality		\$ 4.68 Million
Audit misstatement posting threshold (AMPT)	<p>The corresponding amount for the prior year's audit was 660,000*</p> <p>*This figure was determined by another audit firm, who conducted the audited in the prior year</p>	\$ 312,000

We will report to the Members of the Board:

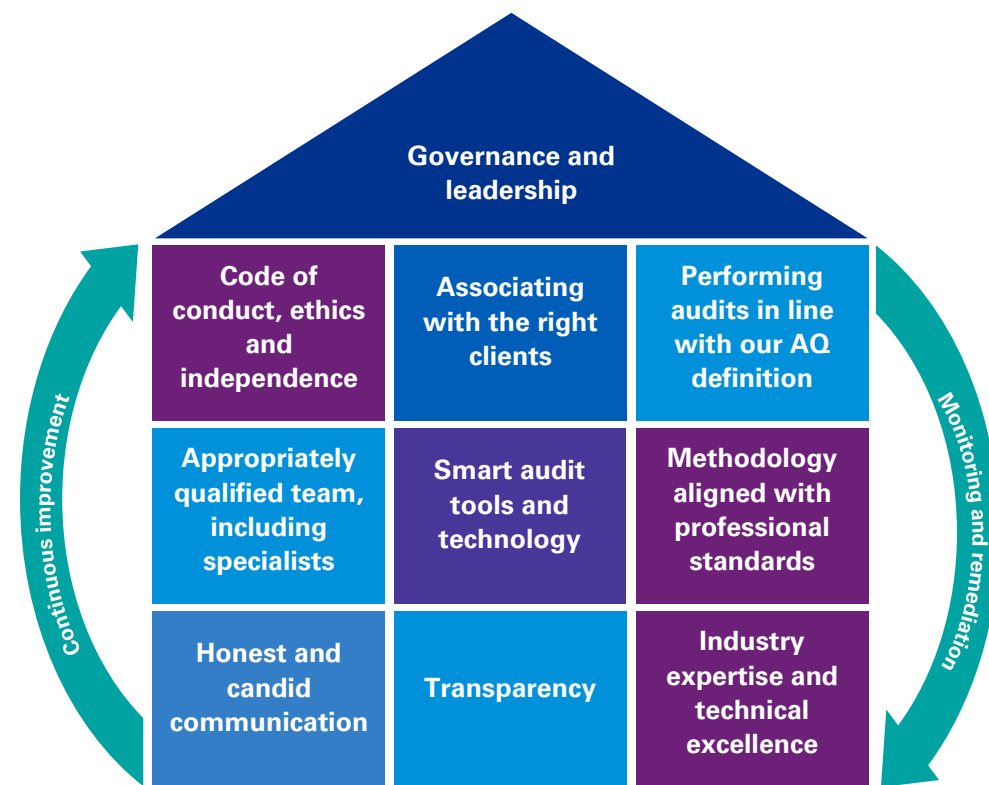
-  Corrected audit misstatements
-  Uncorrected audit misstatements

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**.

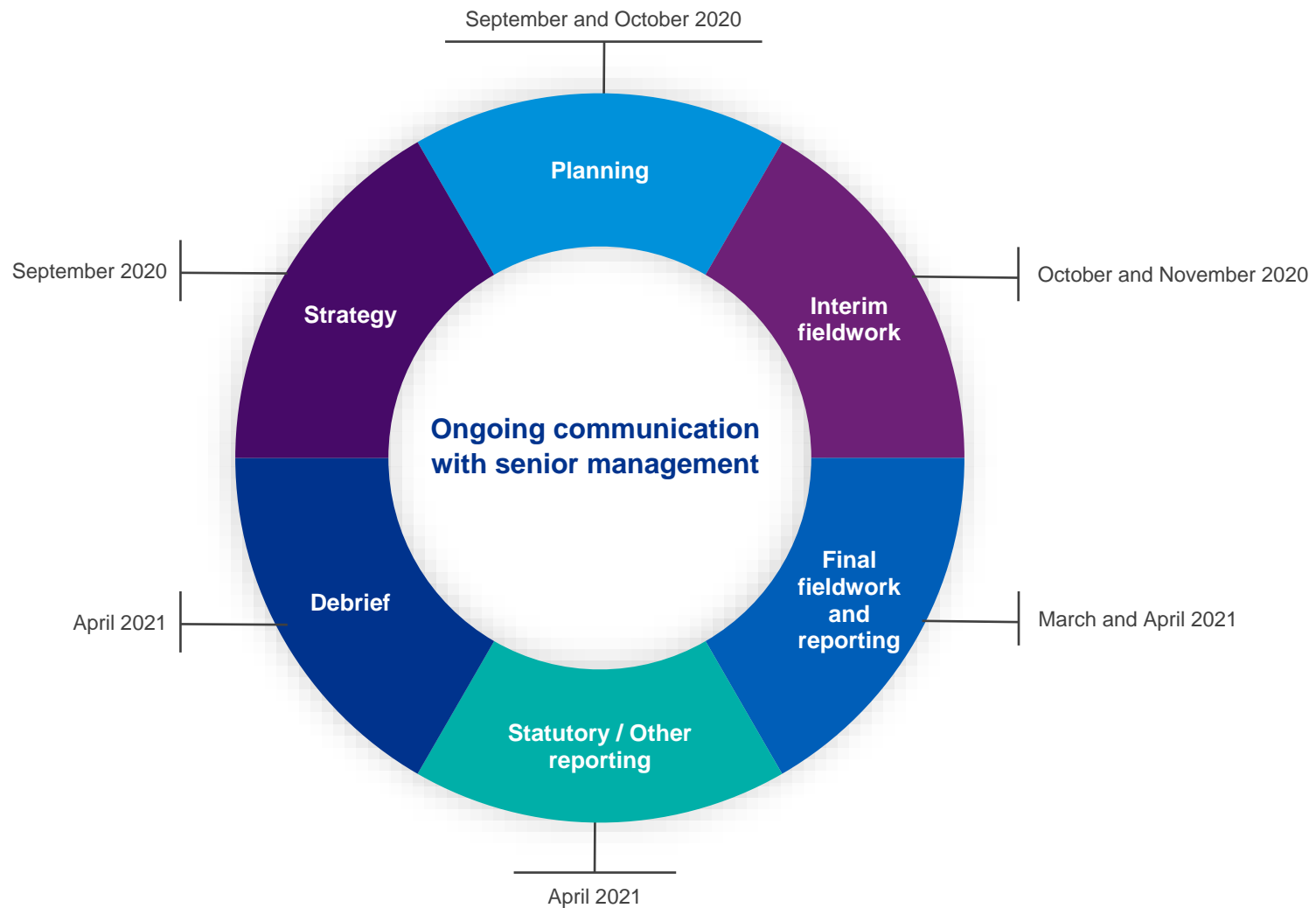
Our AQ Framework summarises how we deliver AQ. Visit our [Audit Quality Resources page](#) for more information including access to our [Audit Quality and Transparency report](#).

Audit Quality Indicators (AQIs)

The objective of these measures is to provide more in-depth information about factors that influence audit quality within an audit process. Below are the AQIs that we have agreed with management are relevant for the audit. We will communicate the status of the below AQIs as requested.

AQI	Measurement criteria	Milestone measurement and status
Team Composition	Experience of the team	<p>Your current audit partner, Kevin Travers, has spent 28 years practicing public accounting and has extensive experience providing audit, advisory and other services in the not-for-profit/public sector. Your relationship partner Paul Simonetta has spent over 20 years practicing audit and leads the audit practice in the Greater Toronto Area.</p> <p>In addition, the Manager, Sam Wu, has spent 5 years auditing not-for-profit/public sector entities. We have talented resources and excellent ability to maintain continuity over the coming years to maximize audit efficiencies.</p>
Engagement Hours	Hours spent by level and phase of the audit	<p>Combined audit partner and manager hours on average are approximately 35% - 40% of total hours. What does this tell you... you are getting senior management attention, we are hands-on in our files.</p> <p>Our field staff split their hours between interim and year-end, allowing for work to be performed at points in time in the year to ensure that the finance department is not stretched to capacity. The staff are assigned based on years of service and seniority to the more complex sections.</p>
Technology in the Audit	Implementation of Technology in the Audit	<p>We have a number of technologies that are we are planning on implementing in the coming years after gaining a deeper understanding of the systems in place during our first year of audit. We use IT tools to run queries on journal entries and GL details to ensure completeness of financial information. These tools provide for a more efficient and effective audit.</p>
Timing of Prepared by Client (PBC) items	Timeliness of PBC items	<p>We have shared our PBC listing for the interim work with management and will be providing the year-end listing well in advance of the year-end audit weeks. This allows management sufficient time to go through our requests and have them ready for us prior to our arrival on the first of fieldwork.</p>
Quality Reviews	Results of internal and external reviews	<p>At KPMG we are externally reviewed by CPA Institute every 3 years and internally reviewed for in-depth quality standards by peers from other offices on the same schedule. Annually, your financial statements will undergo a technical review by a CPA unrelated to the audit team. This allows for a fresh set of eyes to comment on the readability and transparency of the financial statements.</p>
Use of Specialists	Areas involving specialists	<p>As part of the planning and risk assessment process this year, we will be discussing the involvement of specialists as per the needs and demands of the audit engagement. We may include some of these specialists in our planning and risk assessment process during interim audit work. We will report specific specialist involvement to you as part of our audit findings report upon completion of our audit.</p>
	Specialists' hours	<p>Having these resources internally allow for a more seamless and transparent audit process. Due to the complexity of specialist analysis, most of the hours are concentrated at Partner and Senior Manager level. This tells you that you are getting senior management attention from our specialists as well.</p>

Key deliverables and milestones



New audit standards

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

Standard	Key observations	Reference
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: <ul style="list-style-type: none">— 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	CPA Canada Client Briefing

Current Developments - Accounting

Title	Details	Link
Public Sector Update – connection series	Public Sector Accounting Standards are evolving – Get a comprehensive update on the latest developments from our PSAB professionals. Learn about current changes to the standards, active projects and exposure drafts, and other items.	Contact your KPMG team representative to sign up for these webinars. Public Sector Minute Link

The following are upcoming changes that are effective in the current year or will be effective in future periods as they pertain to Public Sector Accounting Standards. We have provided an overview of what these standards are and what they mean to your financial reporting so that you may evaluate any impact to your future financial statements.

Standard	Summary and implications
Asset Retirement Obligations (applicable for the year ending December 31, 2023 with option for retrospective application effective December 31, 2022)	<ul style="list-style-type: none"> – A new standard, PS3280 <i>Asset Retirement Obligations</i>, has been approved that is effective for fiscal years beginning on or after April 1, 2022 (the City’s 2023 year-end). – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs would be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard would require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). The amount of the initial liability would be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector entity would have to: <ul style="list-style-type: none"> ○ consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; ○ carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; ○ begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.
Revenue	<ul style="list-style-type: none"> – A new standard, PS3400 <i>Revenues</i>, has been approved that is effective for fiscal years beginning on or after April 1, 2023 (the City’s 2024 year-end). – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement.

Standard	Summary and implications
	<ul style="list-style-type: none"> – The standard notes that in the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. – The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.
Employee Future Benefit Obligation	<ul style="list-style-type: none"> – PSAB has initiated a review of sections PS3250 <i>Retirement Benefits</i> and PS3255 <i>Post-Employment Benefits, Compensated Absences and Termination Benefits</i>. Given the complexity of issues involved and potential implications of any changes that may arise from this review, the project will be undertaken in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. – Three Invitations to Comment were issued and have closed. The first Invitation to Comment sought guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets. The second Invitation to Comment sought guidance on the present value measurement of accrued benefit obligations. A third Invitation to Comment sought guidance on non-traditional pension plans. – The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.
Public Private Partnerships (“P3”)	<ul style="list-style-type: none"> – A taskforce was established in 2016 as a result of increasing use of public private partnerships for the delivery of services and provision of assets. The objective is to develop a public sector accounting standard specific to public private partnerships. – A Statement of Principles (“SOP”) was issued in August 2017 which proposes new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership. An Exposure Draft of the new standard was issued in November 2019. – Public private partnership infrastructure is recognized as an asset when the public sector entity acquires control of the infrastructure. A liability is recognized when the asset is recognized and may be a financial liability, a performance obligation or a combination of both. – An infrastructure asset acquired in an exchange transaction is recorded at cost which is equal to its fair value on the measurement date. The liability is measured at the cost of the infrastructure asset initially. – Subsequently, the infrastructure asset is amortized in a rational and systematic manner over its useful life. – Subsequent measurement of the financial liability would reflect the payments made by the public sector entity to settle the liability as well as the finance charge passed on to the public sector entity through the public private partnership agreement. – Subsequent measurement of the performance obligation: revenues are recognized and the liability reduced in accordance with the substance of the public private partnership agreement.
Concepts Underlying Financial Performance	<ul style="list-style-type: none"> – PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – PSAB is developing two exposure drafts (one for a revised conceptual framework and one for a revised reporting model) with two accompanying basis for conclusions documents and resulting consequential amendments. PSAB expects to issue the two exposure drafts and accompanying documents in 2020. – A Statement of Concepts (“SOC”) and Statement of Principles (“SOP”) were issued for comment in May 2018.

Standard	Summary and implications
	<ul style="list-style-type: none"> – The SOC proposes a revised, ten chapter conceptual framework intended to replace PS 1000 <i>Financial Statement Concepts</i> and PS 1100 <i>Financial Statement Objectives</i>. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. – The SOP includes principles intended to replace PS 1201 <i>Financial Statement Presentation</i>. The SOP proposes: <ul style="list-style-type: none"> ○ Removal of the net debt indicator, except for on the statement of net debt where it would be calculated exclusive of financial assets and liabilities that are externally restricted and/or not available to settle the liabilities or financial assets. ○ Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). ○ Restructuring the statement of financial position to present non-financial assets before liabilities. ○ Removal of the statement of rereasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities). ○ A new provision whereby an entity can use an amended budget in certain circumstances. – Inclusion of disclosures related to risks and uncertainties that could affect the entity's financial position.
2019 – 2020 Annual Improvements	<ul style="list-style-type: none"> – PSAB adopted an annual improvements process to make minor improvements to the CPA Canada Public Sector Accounting (PSA) Handbook or Statements of Recommended Practices (other guidance). – The annual improvement process: <ul style="list-style-type: none"> ○ clarifies standards or other guidance; or ○ corrects relatively minor unintended consequences, conflicts or oversights. – Major or narrow scope amendments to the standards or other guidance are not included in the annual improvement process.
International Strategy	<ul style="list-style-type: none"> – PSAB is in the process of reviewing its current approach towards International Public Sector Accounting Standards (IPSAS). This project may result in changes to the role PSAB plays in setting standards in Canada. – A consultation paper was released for comment in May 2018 and has closed. The consultation paper described the decision-making criteria PSAB expects to consider in evaluating the international strategy that best serves the public sector. It also introduced four proposed international strategies that PSAB considers to be viable. Over 2017-2021 period, PSAB intends to do the following: <ul style="list-style-type: none"> ○ conduct research on differences between Canadian Public Sector Accounting Standards and International Accounting Standards; ○ learn about experiences of other jurisdictions that choose to follow IPSAS; publish a consultation paper to get the opinion of stakeholders; ○ and, develop options for PSAB's International strategy.
Purchased Intangibles	<ul style="list-style-type: none"> – As a result of stakeholder feedback received, PSAB will revisit validity of the prohibition against recognizing purchased intangibles in public sector financial statements and will consider a narrow scope amendment. – Input received in response to the 2018 conceptual framework and reporting model documents for comment supported PSAB relocating the recognition prohibitions from the conceptual framework to the standards level. This is a bigger issued for Indigenous governments. PSAB is looking into the question of why purchased intangibles acquired through an exchange transaction cannot be recognized in public sector financial statements as they are measurable at the price in the transaction.

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Appendix 1: Required communications

Report	Engagement terms
<p>Audit planning report – as attached.</p> <p>A draft report will be provided at the completion of the audit.</p>	<p>Unless you inform us otherwise, we understand that you acknowledge and agree to the terms of the engagement set out in the engagement letter provided by City's management.</p>
Reports to the Members of the Board	Representations of management
<p>At the completion of the audit, we will provide our findings report to the Members of the Board.</p>	<p>We will obtain from management certain representations at the completion of the audit.</p>
Matters pertaining to independence	Internal control deficiencies
<p>All matters related to independence are dealt with directly by the Group audit team.</p>	<p>Other control deficiencies, identified during the audit, that do not rise to the level of a significant deficiency will be, communicated to management.</p>
Required inquiries	Audit Quality
<p>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.</p>	<p>The following links are external audit quality reports for referral by the Library Board:</p> <ul style="list-style-type: none">• CPAB Audit Quality Insights Report: 2019 Annual Inspections Results• CPAB Audit Quality Insights Report: 2019 Fall Inspection Results

Appendix 2: Use of technology in the audit

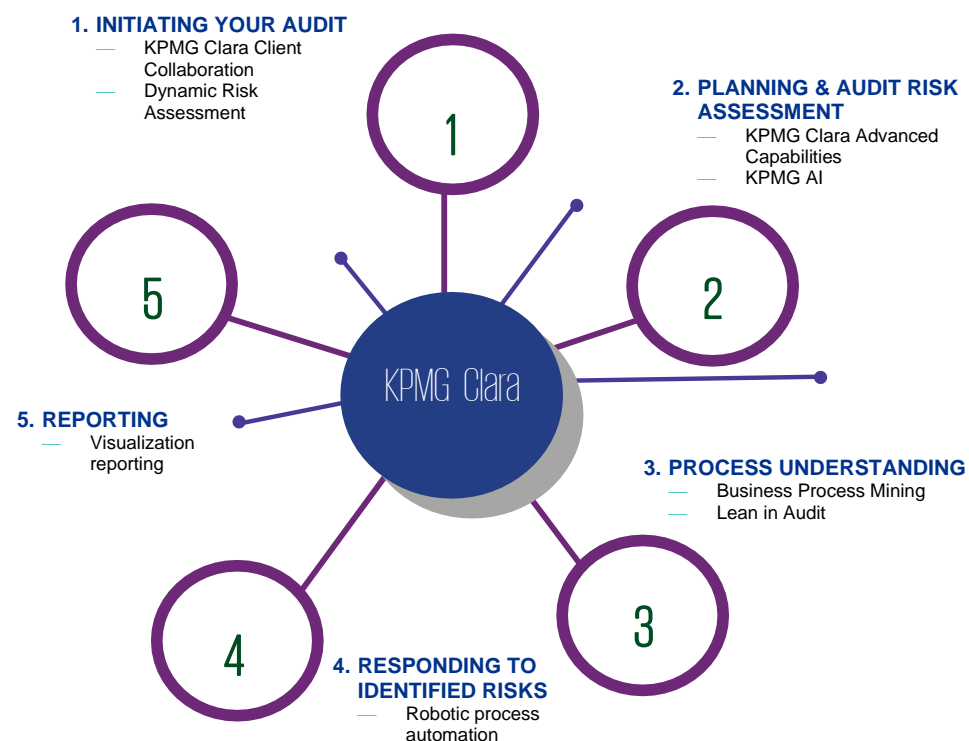
Clara is KPMG's integrated, smart global audit platform that allows our teams globally to work simultaneously on audit documentation while sharing real time information. Clara also leverages advanced technology in the execution of various audit procedures, for overall risk assessment and for performing substantive audit procedures over 100% of selected transactions through the use of robotic process automation (KPMG "Bots"). KPMG's use of technology provides for:

1. a **higher quality audit** – looking at 100% of selected data
2. a **more efficient audit** as we are focussed on the transactions that are considered higher risk and
3. an audit that provides **insights into your business** through the use of technology in your audit with our extensive industry knowledge.

We are also actively piloting Artificial Intelligence ("AI") tools which will be used in future audits.

We will be discussing the use and implementation of these tools with the Entity over the course of our audit. These tools will be adopted and applied to the Entity's audit using a phased approach over the coming years. We will keep you apprised of our progress on a continuous basis.

Our five-phased audit approach



Appendix 2: Use of technology in the audit (continued)

Phase 1: Initiating your audit

To ensure that you are involved in every step of the audit, management will have access to **KPMG Clara Client Collaboration (KCCC)**. KCCC is our secure audit platform and a one-stop shop through which we plan, execute and manage the audit. KCCC supports seamless collaboration between our audit team and your finance team, including exchange of information and access to the real time reporting you need in one central location, reducing the impact to your people in coordinating and overseeing the audit. It ensures there are no surprises during the execution of the audit and the ability to efficiently track issues and outstanding matters with a single click.

Want to know more about [KCCC](#)?

Phase 2: Planning and audit risk assessment

KPMG Clara Advanced Capabilities incorporates structured rules, specific to your industry, to review your financial data and assist the engagement team in obtaining a more thorough understanding of the business processes and underlying flow transactions. Our advanced analytic tool enables a more precise risk assessment and development of a tailored audit approach. We will work with management to use this tool using a phased approach beginning our conversations this year.

Want to know more about [Clara Advanced Capabilities](#)?

The result of KPMG Clara Advanced Capabilities allows us to tailor our audit approach to your specific risks.

Phase 3: Process understanding

As part of understanding your processes, KPMG uses our **Lean in Audit methodology**. Our Lean in Audit methodology allows our team to work collaboratively with you to gain an in-depth understanding of selected end-to-end processes. We will be discussing the use of this methodology for our audit of the Entity over the coming months to understand management's assessment and appetite to incorporate this approach into our overall methodology.

We also incorporate **Business Process Mining (BPM)** technology. BPM provides immediate visualization of how 100% of your transactions are processed to complement your process narratives & flow charts. A deeper understanding of your processes enhances our understanding of your business. This will ensure our team is focused on auditing the right risks & leveraging your team's resources efficiently. It helps us identify inefficiencies or manual workarounds in a process and highlights where the process is under stress.

Want to know more about [Business Process Mining](#)?

Phase 4: Responding to identified risks

Our **journal entry analysis** tool assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.

Appendix 3: 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 4: 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.

We will be discussing the use of this of tool with management over the coming months to understand management's assessment and appetite for the use of this tool for current and future periods.

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 5: Audit and Assurance Insights

Our latest thinking on the issues that matter most to Members of the Board 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 Board 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>
Current Developments	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US	<u>Learn more</u>
Board Leadership Centre	Leading insights to help board members maximize boardroom opportunities.	<u>Learn more</u>
Return to the Workplace	As all levels of government begin to take steps toward re-opening the country and restarting our economy, planning for the return to a physical workplace is quickly becoming a top priority for many organizations. With the guidelines for the pandemic continuing to evolve daily, there are many considerations, stages and factors employers need to assess in order to properly develop a robust action plan which can ensure the health and safety of their workforce.	<u>Link to report</u>



kpmg.ca/audit



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