



City of Nanaimo

Audit Planning Report for the year ended December
31, 2020

KPMG LLP

Prepared for the meeting on November 18, 2020

kpmg.ca/audit



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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**.



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Executive summary

Areas of focus for financial reporting

Our audit of the City of Nanaimo (the “Entity” or the “City”) is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- Financial reporting considerations of COVID-19
- Presumed fraud risk of management override of controls

See pages 3-4.

Effective communication

We are committed to transparent and thorough reporting of issues to management and the Finance and Audit Committee (the “Committee”). This is achieved through formal and informal meetings and communications throughout the year. If you have any comments you would like to bring to our attention, please contact Liette Bates-Eamer.

Materiality

Materiality has been determined based on total expenses. We have determined materiality to be \$3,700,000 (2019 - \$3,700,000).

See page 5.

Quality control and independence

We are independent and have a robust and consistent system of quality control. We provide complete transparency on all services and follow the Committee’s approved protocols where required.

See page 6.

New auditing standards

A new auditing standard, CAS 540 Auditing Accounting Estimates and Related Disclosures, is effective for the Entity’s 2020 fiscal year.

See page 8 for further details.

Current developments

Please refer to Appendix 2 for the current developments updates, including COVID-19 resources.

Audit and financial reporting impacts of COVID-19

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. As the COVID-19 pandemic evolves, the Entity will continue to assess the impact on its operations and finances and consider the implications on financial reporting. We will analyze the impact of the COVID-19 pandemic situation on the audit of the financial statements for the year ended December 31, 2020 and discuss the audit and financial reporting implications with management.

We provide the following information for the review of the Committee and describe the additional procedures that we will be performing. As the COVID-19 pandemic is a dynamic situation, we will continue to update our Audit Plan as the situation warrants. We will communicate any additional changes to our Audit Plan to the Committee in our Audit Findings Report.

Considerations	Audit implications
Conducting the audit work	<ul style="list-style-type: none">– KPMG is fully paperless and poised to undertake a remote audit in an efficient manner if required. We have established a secure platform to facilitate the sharing of information with management. We have discussed the details of the audit with management, and we are ready to undertake the audit as planned and on schedule.– The ability for the audit to commence is highly fluid and dependent on management's ability to physically or digitally access underlying documents in a safe and healthy manner.
General considerations	<ul style="list-style-type: none">– Many organizations have been required, out of necessity, to amend process activities and controls, and as such, segregation of duties and approval of transactions may also have been impacted.– We will obtain an understanding of what changes to process activities and controls have been implemented to determine if the planned audit procedures are appropriate. We have conducted preliminary discussions with management and will confirm our understanding of any significant changes by performing walkthroughs of transactions.
Planning and risk assessment	<ul style="list-style-type: none">– We anticipate the operational impacts of COVID to be evident in multiple areas of the City's financial statements. Where we have planned to perform analytical procedures we will adjust our expectations in line with known COVID impacts (ex. reduced casino and recreational programs revenue etc.)
Financial reporting	<ul style="list-style-type: none">– Currently, we expect that COVID-19 will continue to impact the City's operations and finances beyond December 31, 2020.– An assessment should be made by management of any COVID-19 financial implications. Significant actions undertaken by the City should be disclosed in a note to the financial statements, including a statement as to whether or not these factors present uncertainty over future cash flows, cause significant changes to assets and liabilities, and/or significantly impact future operations. Measurement of the estimated financial effect should be disclosed, or it should be stated if the effect is not determinable.– We will work with management to customize the wording of the COVID related disclosures for the City's specific situation.– Refer to our COVID-19 Financial Reporting site.

Audit risks

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.

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.

Inquiries required by professional standards

Professional standards require that we obtain your view on the risk of fraud. We make similar inquiries to management as part of our planning process:

- Are you aware of, or have you identified any instances of actual, suspected, possible, or alleged non-compliance of laws and regulations or fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?
- What are your views about fraud risks in the entity?
- How do you exercise effective oversight of management's processes for identifying and responding to the risk of fraud in the entity and internal controls that management has established to mitigate these fraud risks?
- Has the Entity entered into any significant unusual transactions?

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. 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.

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. The corresponding amount for the prior year's audit was \$3,700,000.	\$3,700,000
Benchmark	Based on total expenses for the year ended December 31, 2019 This benchmark is consistent with the prior year.	\$164,443,106
% of Benchmark	The prescribed range is between 0.5% and 3.0% of the benchmark. The corresponding percentage for the prior year's audit was 2.3%.	2.3%
Audit misstatement posting threshold	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the prior year's audit was \$185,000.	\$185,000

We will report to the Committee:



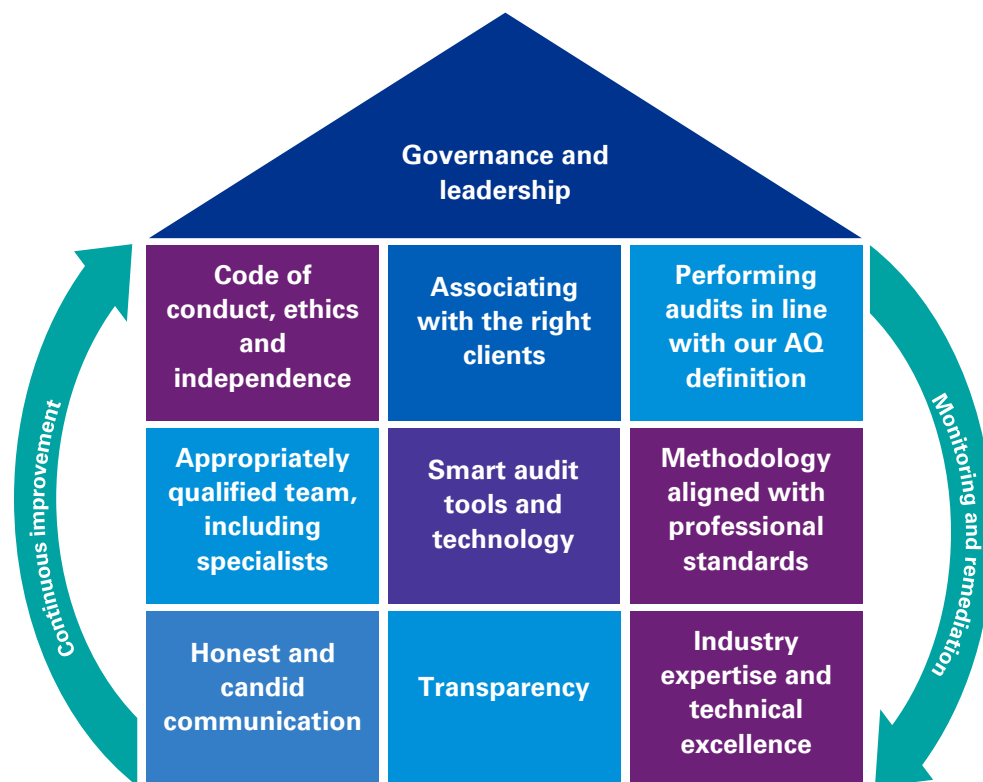
Corrected audit misstatements



Uncorrected audit misstatements

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.

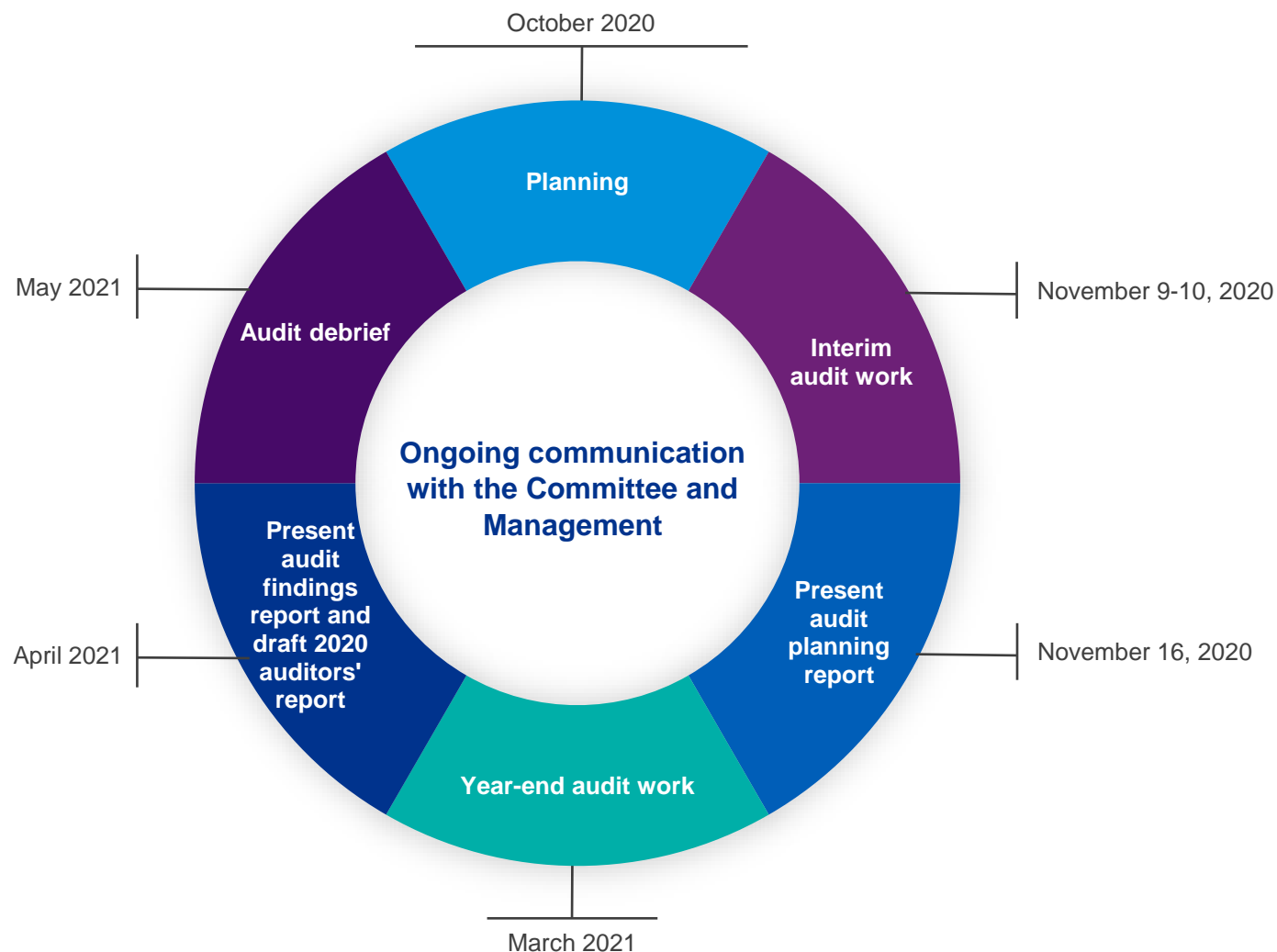
We believe that it is not just about reaching the right opinion, but how we reach that opinion.

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 auditing standard

Standard	Overview	Link
CAS 540 Auditing Accounting Estimates and Related Disclosures	<p>The new standard is effective for the Entity's 2020 fiscal year-end.</p> <p>Expected impact on the audit:</p> <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

Appendices

Appendix 1: Required communications

Appendix 2: Current developments



Appendix 1: Required communications

Auditors' report	Engagement letter
A copy of our draft auditors' report setting out the conclusion of our audit will be provided at the completion of the audit.	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.
Audit findings report	Management representation letter
At the completion of the audit, we will provide our findings report to the Committee.	We will obtain from management certain representations at the completion of the audit. In accordance with professional standards, a copy of the representation letter will be provided to the Committee.
Independence	Internal control deficiencies
At the completion of our audit, we will re-confirm our independence to the Committee.	Control deficiencies identified during the audit will be communicated to management and the Committee.

Appendix 3: Current developments and audit trends

Current Developments, created by the KPMG Public Sector and Not-for-Profit Practice, summarizes regulatory and governance matters impacting public sector entities today, or expected to impact them over the next few years. We provide this information to help public sector entities understand upcoming changes and challenges they may face in their industry. Some of these developments may not impact the Entity directly, but we believe it is important for the Committee to understand what is happening in the sector.

Standard	Summary and implications
Impact of COVID-19	<ul style="list-style-type: none"> – In response to the impact of COVID-19 on public sector entities, PSAB has approved deferral of all upcoming accounting standards by one year and will issue non-authoritative guidance on the effects of COVID-19.
Asset Retirement Obligations	<ul style="list-style-type: none"> – The new standard is effective for fiscal years beginning on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. – 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 will 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 will 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 will 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 will 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"> – The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19. – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that in the case of revenues arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.

	<ul style="list-style-type: none"> – 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.
Financial Instruments and Foreign Currency Translation	<ul style="list-style-type: none"> – The accounting standards, PS3450 <i>Financial Instruments</i>, PS2601 <i>Foreign Currency Translation</i>, PS1201 <i>Financial Statement Presentation</i> and PS3041 <i>Portfolio Investments</i> are effective for fiscal years commencing on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. – Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. – Hedge accounting is not permitted. – A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. – In July 2020, PSAB approved federal government narrow-scope amendments to PS3450 <i>Financial Instruments</i> which will be included in the Handbook in the fall of 2020. Based on stakeholder feedback, PSAB is considering other narrow-scope amendments related to the presentation and foreign currency requirements in PS3450 <i>Financial Instruments</i>. The exposure drafts will be released in summer 2020 with a 90-day comment period.
Employee Future Benefit Obligations	<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>. In July 2020, PSAB approved a revised project plan. – PSAB intends to use principles from International Public Sector Accounting Standard 39 <i>Employee Benefits</i> as a starting point to develop the Canadian standard. – Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues.

Appendix 3: Current developments and audit trends (continued)

Our discussions with you, our audit opinion and what KPMG is seeing in the marketplace - both from an audit and industry perspective - indicate the following is specific information that may be of particular interest to you.

Thought leadership

Thought leadership	Overview	Link
2019 Audit Quality and Transparency Report	Learn about KPMG's ongoing commitment to continuous audit quality improvement. We are investing in new innovative technologies and building strategic alliances with leading technology companies that will have a transformative impact on the auditing process and profession. How do we seek to make an impact on society through the work that we do?	Link to report
Put your data to work to gain competitive advantage	There is no "digital economy". The economy is digital and "digits" refer to data. Data is the lifeblood of every organization on this planet and organizations that embrace this notion are well positioned to grow as industries continue to evolve and disrupt at an ever increasing pace.	Link to report
Predictive analytics, it works	CEOs recognize the value that predictive analytics delivers to their decision-making process.	Link to report
Creating the workforce of the future	You can't transform the organization without also transforming the workforce. It may be time to rethink the people strategy.	Link to report
Accelerate	Introducing the new 2019/2020 Accelerate report, a KPMG report and video series offering insight into the key issues driving the Audit Committee agenda, including: <ul style="list-style-type: none">– Digital disruption of the finance function– Digital business brings increased cyber risk– Taking the lead on data privacy– Boards bracing for climate change– Future-proofing your enterprise risk management	Link to report
Board Leadership Centre	KPMG provides leading insights to help Board members maximize boardroom opportunities.	Link to site

Appendix 3: Current developments and audit trends (continued)

COVID-19 pandemic resources

Resources	Summary	Links
Resources for management and the Council	<p>Please visit our COVID-19 website for resources regarding the topics below. This site is being <u>updated daily</u> based on information being released by federal, provincial and municipal news releases.</p> <ul style="list-style-type: none">– Business continuity guide– Immediate actions to take– Medium to long-term actions– Tax considerations and a summary of federal and provincial programs– Legal considerations– Financial reporting and audit considerations– Global perspectives	COVID-19 Alerts (Live Link)
Return to the workplace	<p>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.</p> <p>We have put together a Return to the Workplace guide to support an organization's planning efforts in preparing to return to physical workplace. Our guide includes a list of considerations, stages and factors that can help establish a robust action plan for your organization to safely return to work. The guide is supported by a dynamic playbook, which our team has developed to outline a comprehensive list of actions an organization can take, based on their unique situation and immediate needs.</p>	Website link Link to guide

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