



# Wellington- Dufferin-Guelph Public Health

*KPMG LLP*

Chartered Accountants, Licensed Public Accountants



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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**.

# Executive summary

## 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:

- Tangible Capital Assets & Amortization expense,
- Accounts Payable & Accrued Liabilities,
- Salary & Wages Expense including payroll accruals

## KPMG team

The KPMG team will be led by Matthew Betik. Brendan Hall will be the Senior Manager on the file assisting the audit team to complete the audit and preparation of financial statements.

## Effective communication

We are committed to transparent and thorough reporting of issues to senior management, and the Board.

## Audit Materiality

Materiality has been determined based on prior year total assets which approximates \$34 million dollars. We have reviewed the scope of work and have determined materiality to be \$650,000 for the year ending December 31, 2016.

*See page 6*

## Independence

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

## Current developments

There are no new relevant accounting or auditing changes to be brought to your attention at this time.

This Audit Planning Report should not be used for any other purpose or by anyone other than the Board. 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 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, since 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.

Professional requirements	Why	Our audit approach
Fraud risk from revenue recognition	This is a presumed fraud risk	Verifying appropriate revenue cut-off to ensure revenue has been recorded in the correct year.
Fraud risk from management override of controls	This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.	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

Other areas of focus include the following:

Other areas of focus	Why	Our audit approach
Tangible Capital Assets	Significant due to size of account and the magnitude of activities during the year (additions, disposals, etc...)	<ul style="list-style-type: none"> <li>– We will perform substantive testing over additions recorded in the year to ensure that amounts represent a capital asset addition (i.e. not reflective of repairs or maintenance which should be expensed in the period)</li> <li>– We will review disposals to ensure that dispositions are recorded correctly, and a gain or loss is reflected appropriately in the general ledger.</li> <li>– We will also perform repairs and maintenance testing to gain assurance over the completeness of capital asset additions for fiscal 2016.</li> </ul>
Payroll Expenditures	Represents the largest class of expenditures for the Health Unit	<ul style="list-style-type: none"> <li>– Control testing performed to ensure that individuals are paid in accordance with employment agreements.</li> <li>– Detailed procedures over payroll expenditures, substantive testing over accruals as at year end.</li> </ul>
Accounts Payable	Significant due to the size of the account and the risk of completeness at year-end	<ul style="list-style-type: none"> <li>– We will perform substantive testing to gain assurance over the existence and accuracy of payables and accruals.</li> <li>– In addition, we will perform a search for unrecorded liabilities to ensure that amounts paid or invoices received in 2017 that relate to 2016 have been appropriately accrued for and recorded as a liability in the general ledger as at year-end.</li> </ul>
Cash	Significant bank balances maintained (in excess of \$7M PY)	<ul style="list-style-type: none"> <li>– We will confirm directly with the entity's financial institution bank balances as at December 31, 2016</li> <li>– KPMG will review management's prepared bank reconciliations and ensure amount reconciles to the general ledger balance</li> <li>– KPMG will perform testing on reconciling items as at December 31, 2016</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 professional judgment and is based on a combination of quantitative and qualitative assessments including the nature of account balances and financial statement disclosures.

Materiality determination	Comments	Amount
Metrics	Based off of total assets	\$34M
Benchmark	Based on prior year balance	\$34M
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 \$600,000.	\$650,000
% of Benchmark	Typically between the range of 1-3%	1.9%
Performance materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures. The corresponding amount for the prior year's audit was \$450,000,	\$485,000
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$30,000	\$32,000
	Reclassification audit misstatement posting threshold has been set at \$90,000	

# Audit Team

	Team member	Background / experience	Discussion of role
	<p><b>Matthew Betik, CPA, CA CPA (Illinois)</b> Lead Audit Engagement Partner <a href="mailto:mbetik@kpmg.ca">mbetik@kpmg.ca</a> 519-747-8245</p>	<ul style="list-style-type: none"> <li>Matthew has over 20+ years of auditing and accounting experience with a focus in the public sector.</li> <li>70% of Matthew's professional time is devoted to serving clients in the public sector.</li> <li>Matthew's municipal clients consist of upper and lower tier municipalities across South Western Ontario including the Municipality of Kincardine, County of Wellington, Township of Woolwich, Town of Blue Mountains, Township of Centre Wellington, Region of Waterloo and the City of Kitchener.</li> <li>Matthew is also the lead engagement partner for a variety of municipally controlled entities including not-for-profit housing corporations, utility companies, business improvement entities, libraries, and long-term care facilities.</li> </ul>	<ul style="list-style-type: none"> <li>Matthew will lead our audit for the Health Unit and be responsible for the quality and timeliness of everything we do.</li> <li>He will often be onsite with the team and will always be available and accessible to you.</li> <li>Matthew Betik is also the lead engagement partner for the Audit of the City of Guelph and the County of Wellington and has previously held the role of lead engagement partner on the audit of the County of Dufferin.</li> </ul>
	<p><b>Brendan Hall, CPA, CA, BBA</b> Audit Senior Manager <a href="mailto:bdhall@kpmg.ca">bdhall@kpmg.ca</a> 519-747-8273</p>	<ul style="list-style-type: none"> <li>Brendan has worked in the Waterloo office for 9 years, and prior to being a senior manager served as the lead senior accountant for many municipal and municipally controlled clients across South Western Ontario</li> <li>40% of Brendan's time is spent serving municipal sector clients including the County of Wellington, Town of Kincardine, Town of Blue Mountains, City of Guelph, City of Waterloo, Bruce Telecom, Waterloo Public Library, and The Region of Waterloo</li> <li>Brendan has consistently been identified by his clients as being a responsive professional assisting in meeting client deadlines.</li> </ul>	<ul style="list-style-type: none"> <li>Brendan will work very closely with Matthew on all aspects of our audit for Health Unit. He will be on site and directly oversee and manage our audit field team and work closely with your management team.</li> <li>Brendan will also be involved in the preparation of special reports/special audits for reporting as required.</li> </ul>

# Value for fees

## The value of our audit services

We recognize that the primary objective of our engagement is the completion of an audit of the consolidated financial statements in accordance with professional standards. We also believe that our role as external auditor of the Health Unit and the access to information and people in conjunction with our audit procedures, place us in a position to provide other forms of value. We know that you expect this of us.

We want to ensure we understand your expectations. To facilitate a discussion (either in the upcoming meeting or in separate discussions), we have outlined some of the attributes of our team and our processes that we believe enhance the value of our audit service. We recognize that certain of these items are necessary components of a rigorous audit. We welcome your feedback.

- Extensive industry experience on our audit team – as outlined in our team summary, the senior members of our team have extensive experience in audits of municipal clients and municipally owned businesses. This experience ensures that we are well positioned to identify and discuss observations and insights that are important to you;



# 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 2016 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:

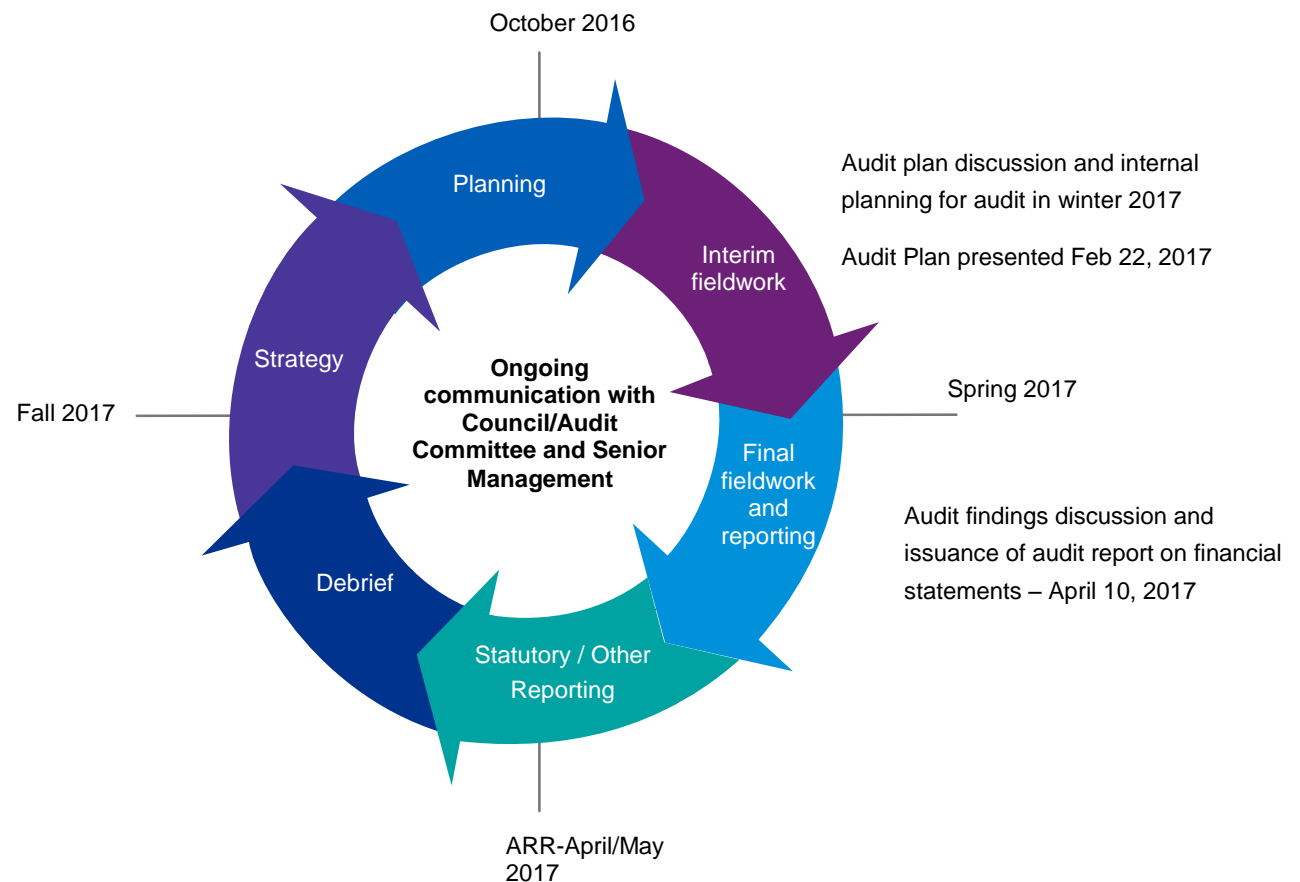
- Significant changes in the nature or size of the operations of the Company beyond those contemplated in our planning processes;
- Changes in professional standards or requirements arising as a result of changes in professional standards or the interpretation thereof;
- Changes in the time of our work;

# 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, with significant risks taken into account during planning.



# 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 our [Audit Quality Resources](#) page for more information including access to our audit quality report, [Audit quality: Our hands-on process](#).

- Other controls include:
  - 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

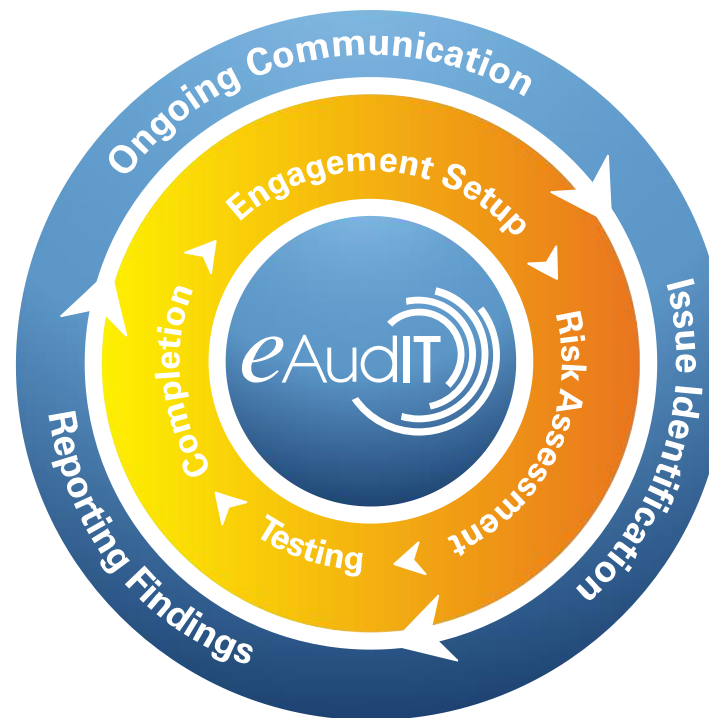
## Technology-enabled audit workflow (eAudit)

### Engagement Setup

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

### Completion

- Tailor the eAudit workflow 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 Council communications
- Debrief audit process



### Risk Assessment

- Tailor the eAudit workflow to your circumstances
- Understand your business and financial processes
- Identify significant risks
- Determine audit approach
- Evaluate design and implementation of internal controls (as required or considered necessary)

### Testing

- Tailor the eAudit workflow to your circumstances
- Perform tests of operating effectiveness of internal controls (as required or 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
- **Audit planning report** – as attached
- **Required inquiries** – professional standards require that during the planning of our audit we obtain your views on risk of fraud and other matters. We make similar inquiries 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 certain representations at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Audit Committee
- **Audit findings report** – at the completion of our audit, we will provide a report to the Audit Committee
- **CPAB Big Four Firm Public Report (November 2015)** – Please refer to [http://www.cpab-crc.ca/Documents/Annual%20Reports/CPAB\\_2015\\_Big%20Four\\_Report\\_EN\\_Final.pdf](http://www.cpab-crc.ca/Documents/Annual%20Reports/CPAB_2015_Big%20Four_Report_EN_Final.pdf)

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