



City of Kingston
Report to Administrative Policies Committee
Report Number AP-17-036

To:	Chair and Members of the Administrative Policies Committee
From:	Desirée Kennedy, Chief Financial Officer and City Treasurer
Resource Staff:	Stephen Dickey, Director of Financial Services
Date of Meeting:	November 9, 2017
Subject:	2017 External Audit Plan

Executive Summary:

As part of their audit planning process, KPMG, the City's external auditor, has established a practice of meeting with the Administrative Policies Committee, in its capacity as Audit Committee, to present their audit plan and related responsibilities with respect to the annual audit of the financial records of the corporation.

KPMG conducted their interim audit procedures during the week of October 10, 2017 and is scheduled to return in March 2018 to begin the year-end audit process for the 2017 fiscal year. They are currently scheduled to present their 2017 audit findings to the Administrative Policies Committee in May 2018.

Recommendation:

That the 2017 audit plan, as presented by KPMG, be received for information purposes.

November 9, 2017

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Authorizing Signatures:

ORIGINAL SIGNED BY CHIEF FINANCIAL OFFICER AND CITY TREASURER

**Desirée Kennedy, Chief Financial Officer and
City Treasurer**

ORIGINAL SIGNED BY CHIEF ADMINISTRATIVE OFFICER

Gerard Hunt, Chief Administrative Officer

Consultation with the following Members of the Corporate Management Team:

Lanie Hurdle, Commissioner, Community Services	Not Required
Denis Leger, Commissioner, Corporate & Emergency Services	Not Required
Mark Van Buren, Acting Commissioner, Transportation & Infrastructure Services	Not Required

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Options/Discussion:

At the July 15, 2014 Council meeting, Council approved the re-appointment of KPMG LLP as auditor of The Corporation of the City of Kingston and its local boards for a period of three years (2014-2016), with the option of extending the appointment for two additional years (2017-2018). This option has been exercised, and the appointment has been extended for two additional years.

The annual year-end audit process for the 2017 fiscal year is scheduled to commence in March 2018 and in accordance with generally accepted auditing standards for performing an audit, KPMG will be presenting their audit plan to the Administrative Policies Committee, in its capacity as Audit Committee. The plan includes information on the overall audit strategy and level of responsibility with respect to the financial statements covered by the auditor's report. This meeting also gives members of the Committee an opportunity to discuss and provide input to the auditors on matters of interest or concern to them.

The audit plan normally covers a variety of audit planning matters that the auditor believes would be helpful to an Audit Committee in discharging its responsibilities and can include a variety of aspects related to the overall audit strategy such as:

- a) The general approach and scope of the audit;
- b) The materiality level on which the audit will be based;
- c) Any areas of the financial statements identified by the auditor as having significant financial reporting risk, and the auditor's response thereto;
- d) Identification of financial statement accounts for audit focus and the nature of planned audit procedures;
- e) The timing of the audit and presentation of the audit service team; and
- f) Other specific items considered to be of particular interest to the Audit Committee.

Lori Huber, Audit Engagement Partner, will be in attendance at the Administrative Policies Committee to present the audit plan.

Existing Policy/By Law:

By-Law Number 2014-133, A By-Law to Appoint KPMG LLP as Auditor for the City of Kingston and Its Local Boards for a Period of Three Years (2014-2016), with the Option of Extending the Appointment for Two Additional Years (2017-2018)

Notice Provisions:

Notice provisions are not required for this report.

Accessibility Considerations:

There are no accessibility considerations for this report.

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Financial Considerations:

Provisions for audit fees are included in annual budget estimates.

Contacts:

Stephen Dickey, Director of Financial Services, Extension 2370

Other City of Kingston Staff Consulted:

Other City of Kingston staff have not been consulted.

Exhibits Attached:

Exhibit A: KPMG Audit Planning Report



Corporation of the City of Kingston

**Audit Planning Report
For the year ended December 31, 2017**

KPMG LLP

November 9, 2017

kpmg.ca/audit



The contacts at KPMG in connection with this report are:

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 Lead Audit Engagement Partner
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 Audit Senior Manager
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 rprophet@kpmg.ca

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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 of the Corporation of the City of Kingston (the “City”) is risk-focused. As part of our audit planning, we identify the significant financial reporting risks that, by their nature, require special audit consideration. By focusing on these risks, we establish an overall audit strategy and effectively target our audit procedures. Based on our assessment of the City’s operations as well as our experience with the organization in the past, we have not identified any unique significant financial reporting risks. This initial assessment will be re-evaluated upon completion of our interim and year-end audit procedures.

Areas of focus

In planning our audit, we have identified areas of focus including revenue recognition and deferral policies including government grants; tangible capital assets; Employee Future Benefit obligations and expenses including Payroll.

See page 7.

KPMG team

The KPMG team will be led by Lori Huber, CPA, CA, Licensed Public Accountant. She will be supported by local regional partners and a number of other professionals in the Kingston office. Subject matter experts will be involved to ensure our approach is appropriate and robust.

Effective communication

We are committed to transparent and thorough reporting of issues to the senior management team and the Administrative Policies Committee. We have planned our work to closely co-ordinate and communicate amongst our teams.

This Audit Planning Report should not be used for any other purpose or by anyone other than the Administrative Policies Committee. 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 Fiscal 2016 total expenses. We have reviewed the scope of work across segments and businesses across the group. Materiality will be set at lower thresholds where necessary to meet component financial statement audit requirements. We have determined group materiality to be \$10,000,000 for the year ending December 31, 2017.

See page 5.

A collective audit approach

We have planned the audit to coordinate our work with the component audits to reduce overlap and leverage the audit work performed.

Independence

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

Current developments

Please refer to Appendix 7 for relevant accounting and auditing changes relevant to the City.

Audit plan considerations

We have prepared this audit plan to inform you of the planned scope and timing of the audit for the purpose of carrying out and discharging your responsibilities and exercising oversight over our audit of the consolidated financial statements of the Corporation of the City of Kingston (the “City”).

What has changed from last year

We have set out below a summary of changes that have been taken into consideration in planning the audit for the current period:

Your organization

- We have met with management as part of our audit planning process and have not identified any specific changes to the operations of the City that would result in significant change to our audit approach from the prior year.
- Our 2017 audit will also include a conversion audit of the financial data during the year to the new financial reporting software, Microsoft Dynamics AX as the City's new Financial Management System, replacing the legacy Oracle PeopleSoft Financials.

Regulatory environment

- No significant changes.

Canadian Accounting standards

- There are no significant changes in Canadian Accounting Standards for the current audit periods.

Canadian Auditing standards

- There are no significant changes in Canadian Auditing Standards for the current audit period.

Materiality

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.

The first step is the determination of the amounts used for planning purposes as follows:

Materiality determination	Comments						Group amount
Metrics	Relevant metrics included total expenses, total revenues, and accumulated surplus.						
Benchmark	Based on total expenses for the year ended December 31, 2016.						\$443,343,000
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 consolidated financial statements. The corresponding amount for the prior year's audit was \$10,000,000.						\$10,000,000
% of Benchmark	The corresponding percentage for the prior year's audit was 2%.						2%
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 \$7,500,000.						\$7,500,000
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$500,000.						\$500,000
	Component 1	Component 2	Component 3	Component 4	Component 5	Component 6	
Component Materiality	\$650,000	\$830,000	\$48,000	\$350,000	\$690,000	\$230,000	

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.

Audit scope

Professional standards require that we obtain an understanding of the City's organizational structure, including its components and their environments that is sufficient to identify those components that are financially significant or that contain specific risks that must be addressed during our audit.

Group auditors are required to be involved in the component auditors' risk assessment in order to identify significant risks to the group financial statements. If such significant risks are identified, the group auditor is required to evaluate the appropriateness of the audit procedures to be performed to respond to the identified risk.

KPMG as the Group Auditor is also the Auditor of the various City components.

The components over which we plan to perform audit procedures are as follows:

Components	Why	Our audit approach
Component 1 1425445 Ontario Limited	Individually financially significant	<ul style="list-style-type: none"> – Statutory audit of component financial statements – Audit team composed of KPMG Kingston Staff, and KPMG Waterloo Partner – Component auditor's work will be conducted at a materiality lower than the Corporation of the City of Kingston's materiality, and under the supervision of a Senior Manager that will be involved in both the Corporation of the City of Kingston's audit, and the component's audit.
Component 2 Kingston Hydro Corporation	Individually financially significant	<ul style="list-style-type: none"> – Statutory audit of component financial statements – Audit team composed of KPMG Kingston Staff, and KPMG Waterloo Partner – Component auditor's work will be conducted at a materiality lower than the Corporation of the City of Kingston's materiality, and under the supervision of a Senior Manager that will be involved in both the Corporation of the City of Kingston's audit, and the component's audit.
Component 3 Downtown Business Improvement Area	Non-significant component; however a separate audit is completed	<ul style="list-style-type: none"> – Statutory audit of component financial statements – Audit team composed of KPMG Kingston Staff and Partner
Component 4 Kingston & Frontenac Housing Corporation	Non-significant component; however a separate audit is completed	<ul style="list-style-type: none"> – Statutory audit of component financial statements – Audit team composed of KPMG Kingston Staff and Partner
Component 5 Kingston, Frontenac and Lennox & Addington Public Health	Non-significant component; however a separate audit is completed	<ul style="list-style-type: none"> – Statutory audit of component financial statements – Audit team composed of KPMG Kingston Staff and Partner
Component 6 Kingston-Frontenac Public Library Board	Non-significant component; however a separate audit is completed	<ul style="list-style-type: none"> – Statutory audit of component financial statements – Audit team composed of KPMG Kingston Staff and Partner

Audit approach

Inherent risk is the susceptibility of an assertion related to a significant account or disclosure to a misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

Our assessment of inherent risk is based on various factors, including the size of the balance, its inherent complexity, the level of uncertainty in measurements, as well as significant external market factors or those particular to the internal environment of the entity.

Area of focus	Why	Our audit approach
Cash	Risk of material misstatement related to the completeness, existence and accuracy of cash.	<ul style="list-style-type: none"> – Direct confirmation of balances with third parties. – Review of bank reconciliations. – Vouch a test sample of reconciling items.
Investments and Investment Income	Risk of material misstatement related to the completeness, existence and accuracy of investments and investment income.	<ul style="list-style-type: none"> – Direct confirmation of balances and annual income with the investment managers. – Perform testing over compliance with the City's Investment Policy.
Tangible Capital Assets	Risk of material misstatement related to the classification of tangible capital assets between operating and capital, as well as the completeness of assets.	<ul style="list-style-type: none"> – We will complete substantive audit procedures to address the relevant assertions. – Vouch significant additions and disposals to supporting documentation. – Review of repair and maintenance expenses for proper accounting treatment. – Review the existence of the capital assets schedule with capital assets inventory maintained by management. – Perform analytical audit procedures to ensure adequacy of amortization.
Short-term and Long-term Debt	Risk of material misstatement related to the completeness, existence and accuracy of short-term and long-term debt.	<ul style="list-style-type: none"> – Direct confirmation of long-term debt including terms with third parties. – Review of debt agreements and covenant compliance with external sources. – Review of presentation of long-term versus current debt to ensure current portion is accurately presented.
Employee Future Benefit Obligations	Risk of material misstatement related to the completeness and accuracy of the liability and related expenses.	<ul style="list-style-type: none"> – We will perform substantive procedures, including review and application of assumptions as well as the use of management's expert – the Actuary.
Property taxation	Risk of material misstatement related to the completeness, existence and accuracy of property taxation revenue.	<ul style="list-style-type: none"> – We will complete substantive audit procedures to address the relevant assertions.

Area of focus	Why	Our audit approach
Government Grants	Risk of material misstatement related to the completeness of grant revenue (including related receivables and deferred contributions) and accuracy of timing of revenue recognition.	<ul style="list-style-type: none"> - We will complete substantive audit procedures to address the relevant assertions including: <ul style="list-style-type: none"> o Review the year-end reconciliation of closing grant balances, and obtain supporting documentation for significant reconciling items. o Confirm or test cash receipts for significant grant funds received by the City during the year. o Perform a search for unrecorded receipts.
Payroll Expenses (including related payables)	Risk of material misstatement related to the completeness, existence and accuracy of payroll expenses (including related payables).	<ul style="list-style-type: none"> - Test and evaluate design and operating effectiveness of controls over payroll, budgetary oversight and monitoring. - We will complete substantive audit procedures to address the relevant assertions. - Recalculate significant accruals and review collective agreements for liabilities related to retro pay. - Perform substantive analytical procedures.
Operating Expenses	Risk of material misstatement related to the completeness and accuracy of expenses	<ul style="list-style-type: none"> - We will perform substantive procedures over operating expenses and accounts payable. - Perform a search for unrecorded liabilities and recalculate significant accruals. - Vouch a sample of expenses to supporting documentation.
Financial Reporting	Risk of material misstatement related to the presentation and disclosures of the financial statements.	<ul style="list-style-type: none"> - Review by the engagement partner to ensure the disclosure is consistent with current public sector accounting, disclosure requirements and industry practice.

Audit approach

Professional standards presume the risk of fraudulent revenue recognition and the risk of management override of controls exist in all entities. The risk of fraudulent revenue 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
<p>Fraud risk from revenue recognition</p>	<p>This is a presumed fraud risk. Audit standards require us to assume there are generally pressures/incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition. This can be penetrated through revenue cut-off or manual journal entries and other adjustments related to revenue recognition.</p>	<p>Although there is a presumption that there are risks of fraud in revenue recognition, this presumption may be rebutted. We have exercised professional judgment and have rebutted this presumed risk. We have done this primarily because no risk factors have been identified. Revenues are not complex and they do not involve elements of significant judgment.</p>
<p>Fraud risk from management override of controls</p>	<p>This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.</p>	<p>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.</p>

Data & analytics in the audit

We will be integrating Data & Analytics (D&A) procedures into our planned audit approach. Use of innovative D&A allows us to analyze greater quantities of data, dig deeper and deliver more value from our audit.

We believe that D&A will improve both the quality and effectiveness of our audit by allowing us to analyze large volumes of financial information quickly, enhancing our understanding of your business as well as enabling us to design procedures that better target risks.




Area of focus	Planned D&A routines
Journal Entry Testing	<ul style="list-style-type: none"> <li data-bbox="653 594 1913 651">– Utilizing KPMG application software (IDEA) to evaluate the completeness of the journal entry population through a roll-forward of all accounts. <li data-bbox="653 659 1913 716">– Utilizing computer-assisted audit techniques (CAATs) to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing)

Detailed results and summary insights gained from D&A will be shared with management and presented in our Audit Findings Report.

How we deliver audit quality



Highly talented and experienced team

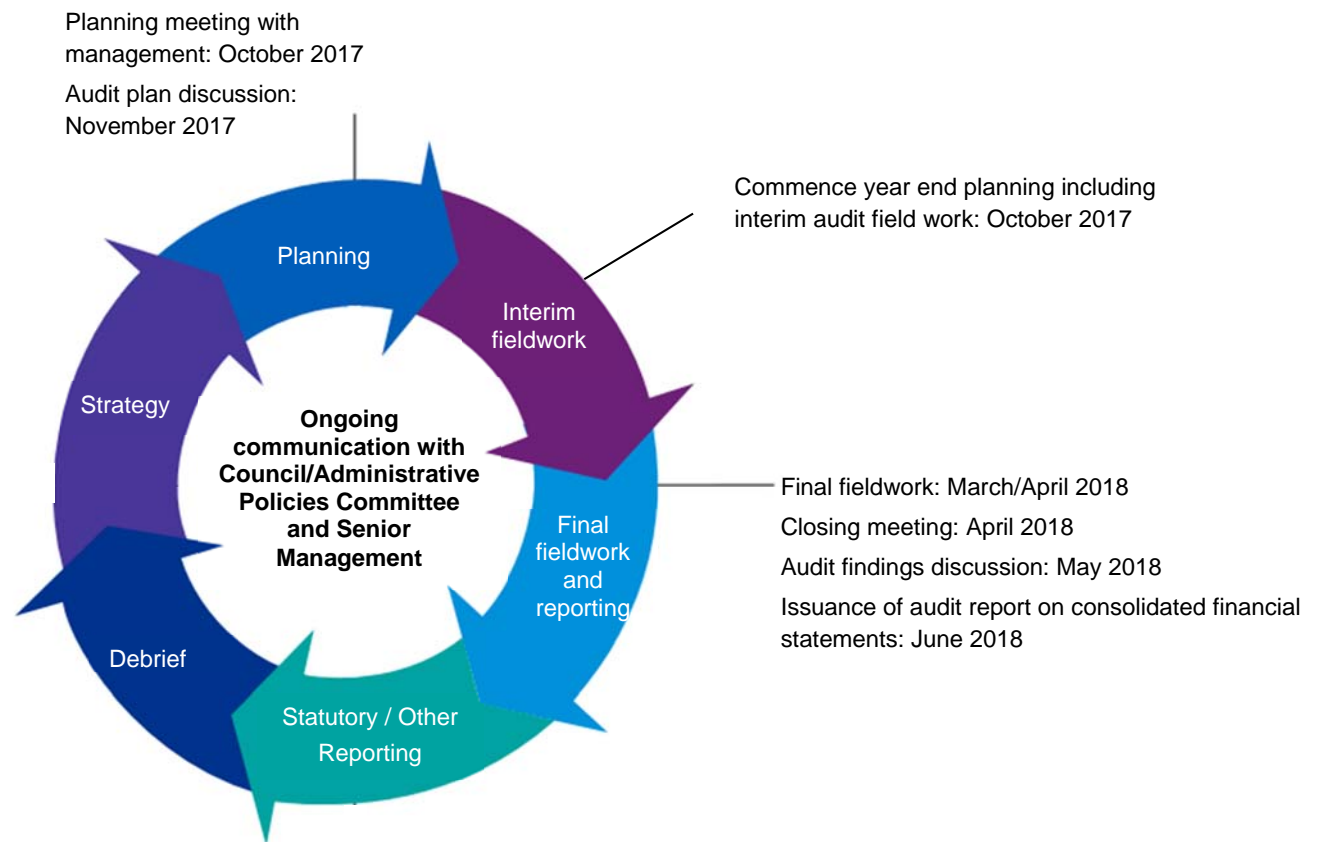
	Team member	Background / experience	Discussion of role
	<p>Lori Huber, CPA, CA, LPA Lead Audit Engagement Partner lahuber@kpmg.ca 613-541-7320</p>	<ul style="list-style-type: none"> – Lori is the Lead Engagement Partner for 9 municipalities across Eastern Ontario. Lori has more than 18 years of public accounting experience, including extensive expertise auditing public sector and non-profit organizations. Her experience involves leading all aspects of audit planning, control and reporting. 	<ul style="list-style-type: none"> – Lori will lead our audit for the year ending December 31, 2017 and be responsible for the quality and timeliness of everything we do. – She will often be onsite with the team and will always be available and accessible to you.
	<p>Rebecca Prophet, CPA, CA, LPA Senior Manager, Audit rprophet@kpmg.ca 613-541-7341</p>	<ul style="list-style-type: none"> – Rebecca is a Senior Manager in KPMG's Kingston, Ontario, Canada office in the audit practice. She has 8 years of experience providing assurance services for public sector, private sector, and not-for-profit clients. Rebecca has experience working with a variety of municipal audit clients, including the Corporation of the City of Kingston. 	<ul style="list-style-type: none"> – Rebecca will supervise staff field work, including delegation and managing requests for information. – She will be onsite and directly oversee and manage our audit field team and work closely with your management team.
	<p>Caitlyn Cox, CPA, CA Senior Accountant, Audit caitlyncox@kpmg.ca 613-541-7406</p>	<ul style="list-style-type: none"> – Caitlyn is a Senior Accountant in the audit practice and has successfully completed her professional examinations. She has three years of experience providing professional audit and other assurance services to public sector clients including the City of Kingston. 	<ul style="list-style-type: none"> – Caitlyn will work closely with Lori and Rebecca in the development and execution of the audit strategy. Caitlyn will be responsible for the direct supervision of the audit, including delegating and managing requests for information; the execution of the detailed audit approach; the identification of financial reporting and operational efficiency issues, as well as an implementation of all phases of the audit and audit working papers prepared by the engagement staff. Caitlyn will be your primary contact – on site – throughout the audit as she leads KPMG's on-site audit team.

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 areas of audit focus discussed before field work to avoid any last minute surprises.



Appendices

Appendix 1: Audit quality and risk management

Appendix 2: KPMG's audit approach and methodology

Appendix 3: Required communications

Appendix 4: Lean in Audit™

Appendix 5: New Auditor Reporting

Appendix 6: Current developments

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



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

Appendix 2: KPMG's audit approach and methodology

Technology-enabled audit 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 Audit Committee communications
- Debrief audit process



Risk Assessment

- Tailor the eAudit workflow to your circumstances
- Understand your business and financial processes
- Identify significant risks
- Plan the use of KPMG specialists and others including auditor's external experts, management experts, internal auditors, service organizations auditors and component auditors
- 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 as attached.
- **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:
 1. *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 behaviour related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?*
 2. *What are your views about fraud risks in the entity?*
 3. *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?*
- **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 Administrative Policies Committee
- **Audit findings report** – at the completion of our audit, we will provide a report to the Administrative Policies Committee



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PRIVATE & CONFIDENTIAL

Mr. Gerard Hunt
Chief Administrative Officer
Corporation of the City of Kingston
216 Ontario St.
Kingston, Ontario K7L 2Z3

November 9, 2017

Dear Mr. Hunt,

The purpose of this letter is to outline the terms of our engagement to audit the consolidated annual financial statements of the Corporation of the City of Kingston ("the Entity"), commencing for the period ending December 31, 2017.

This letter supersedes our previous letter to the Entity dated October 18, 2016.

The terms of the engagement outlined in this letter will continue in effect from period to period, unless amended or terminated in writing. The attached Terms and Conditions and any exhibits, attachments and appendices hereto and subsequent amendments form an integral part of the terms of this engagement and are incorporated herein by reference (collectively the "Engagement Letter").

We will examine and report upon:

- Corporation of the City of Kingston
- The Trust Funds of the Corporation of the City of Kingston
- Long-Term Care Home Annual Report of Rideaucrest Home for the Aged
- Kingston - Frontenac Public Library Board
- Downtown Business Improvement Area.

Financial reporting framework for the financial statements

The annual financial statements will be prepared and presented in accordance with Canadian public sector accounting standards (hereinafter referred to as the "financial reporting framework").

The annual financial statements will include an adequate description of the financial reporting framework (hereinafter referred to as the "financial statements" or "annual financial statements").

Management's responsibilities

Management responsibilities are described in [Appendix A – Management's Responsibilities](#).

An audit does not relieve management or those charged with governance of their responsibilities.

Auditor's responsibilities

Our responsibilities are described in [Appendix B – Auditor's Responsibilities](#).

If management does not fulfill the responsibilities above, we cannot complete our audit.

Auditor's deliverables

The expected form and content of our report(s) is provided in [Appendix C – Expected Form of Report](#). However, there may be circumstances in which a report may differ from its expected form and content.

In addition, if we become aware of information that relates to the financial statements after we have issued our audit report, but which was not known to us at the date of our audit report, and which is of such a nature and from such a source that we would have investigated that information had it come to our attention during the course of our audit, we will, as soon as practicable: (1) communicate such an occurrence to those charged with governance; and (2) undertake an investigation to determine whether the information is reliable and whether the facts existed at the date of our audit report. Further, management agrees that in conducting that investigation, we will have the full cooperation of the Entity's personnel. If the subsequently discovered information is found to be of such a nature that: (a) our audit report would have been affected if the information had been known as of the date of our audit report; and (b) we believe that the audit report is currently being relied upon or is likely to be relied upon by someone who would attach importance to the information, appropriate steps will be taken by KPMG, and appropriate steps will also be taken by the Entity, to prevent further reliance on our audit report. Such steps include, but may not be limited to, appropriate disclosures by the Entity to the users of the financial statements and audit report thereon of the newly discovered facts and the impact to the financial statements.

Income tax compliance and advisory services

Tax compliance and advisory services are outside the scope of this letter. These services will be subject to the terms and conditions of a separate engagement letter.

Fees

[Appendix D – Fees for Professional Services](#) to this letter lists our fees for professional services to be performed under this Engagement Letter.

We are available to provide a wide range of services beyond those outlined above. Additional services are subject to separate terms and arrangements.

We are proud to provide you with the services outlined above and we appreciate your confidence in our work. We shall be pleased to discuss this letter with you at any time. If the arrangements and terms are acceptable, please sign the duplicate of this letter in the space provided and return it to us.

Yours very truly,

Handwritten signature of KPMG LLP in black ink, with a horizontal line underneath.

Lori Huber, CPA, CA, Licensed Public Accountant
Partner responsible for the engagement and its performance, and for the report that is issued on behalf of KPMG LLP, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
613-541-7320

Enclosure

cc: Administrative Policies Committee

The terms of the engagement set out are as agreed:

Gerard Hunt, Chief Administrative Officer

Date (dd/mm/yy)

Appendix A – Management’s Responsibilities

Management acknowledges and understands that they are responsible for:

- (a) the preparation and fair presentation of the financial statements in accordance with the financial reporting framework referred to above
- (b) providing us with access to all information of which management is aware that is relevant to the preparation of the financial statements such as financial records, documentation and other matters, including the names of all related parties and information regarding all relationships and transactions with related parties and including complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors, and committees of the board of directors that may affect the financial statements
- (c) providing us with additional information that we may request from management for the purpose of the engagement
- (d) providing us with unrestricted access to persons within the Entity from whom we determine it necessary to obtain audit evidence
- (e) such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud
- (f) ensuring that all transactions have been recorded and are reflected in the financial statements
- (g)** providing us with written representations required to be obtained under professional standards and written representations that we determine are necessary. Management also acknowledges and understands that, as required by professional standards, we may disclaim an audit opinion when management does not provide certain written representations required.

Appendix B – Auditor’s Responsibilities

Our function as auditors of the Entity is:

- to express an opinion on whether the Entity's annual financial statements, prepared by management with the oversight of those charged with governance, are, in all material respects, in accordance with the financial reporting framework referred to above
- to report on the annual financial statements

We will conduct the audit of the Entity's annual financial statements in accordance with Canadian generally accepted auditing standards and relevant ethical requirements, including those pertaining to independence (hereinafter referred to as applicable “professional standards”).

We will plan and perform the audit to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error. Accordingly, we will, among other things:

- identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the Entity and its environment, including the Entity's internal control. In making those risk assessments, we consider internal control relevant to the Entity's preparation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control
- obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks
- form an opinion on the Entity's annual financial statements based on conclusions drawn from the audit evidence obtained
- communicate matters required by professional standards, to the extent that such matters come to our attention, to the appropriate level of management, those charged with governance and/or the council. The form (oral or in writing) and the timing will depend on the importance of the matter and the requirements under professional standards.

Appendix C – Expected Form of Report

INDEPENDENT AUDITORS' REPORT

To the Members of Council, Inhabitants and Ratepayers of the Corporation of the City of Kingston

We have audited the accompanying consolidated financial statements of the Corporation of the City of Kingston, which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated statements of operations, change in net assets (debt) and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation of the City of Kingston as at December 31, 2017, and its consolidated results of operations and the changes in its consolidated net assets (debt) and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Appendix D – Fees for Professional Services

The Entity and KPMG agree to a fee based on actual hours incurred at mutually agreed-upon rates for the audit. The estimated fees for the audits are as follows:

- \$84,000 for financial statement audit services for the Entity including our audit report on the consolidated financial statements, our letter to management on significant internal control weaknesses, and our communications to the Council Members;
- \$7,600 for financial statement audit services of the Downtown Business Improvement Area;
- \$7,600 for financial statements audit services of the Kingston-Frontenac Public Library Board;
- \$4,950 for the audit of specific sections of the Long-Term Care Facility Annual Report for Rideaucrest Home for the Aged; and
- \$3,100 for the audit of the lease operating cost statements of claim for Ontario Realty Corporation (2 leases).

Additional fees may be required to form an opinion and/or report on other certification work as may be required from time to time by certain federal or provincial agencies. These fees will be based upon hours required to complete the engagement.

Our fees will be billed as the work progresses.

Interest on overdue invoices as described in the terms and conditions ("Fee Arrangements") shall be (1)% per month, calculated and compounded monthly (effective annual rate of (12.683)%).

Appendix 4: Lean in Audit™

An innovative approach leading to enhanced value and quality

Our new 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 yourselves. For example, we may identify control gaps and potential process improvement areas, while entities have 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.

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 your team's immediate quick win actions and prioritized opportunities to realize benefit.

Appendix 5: New Auditor Reporting

In response to investors demanding more than a binary pass/fail opinion from the auditors' report, the new and revised auditor reporting standards have introduced significant changes to the traditional auditors' report we provide.

In April 2017, the Auditing and Assurance Standards Board (AASB) in Canada approved the new and revised auditor reporting standards as Canadian Auditing Standards (CASs).

What's new?

Highlights of the new auditors' report include:

Change	Applicability
Re-ordering of the auditors' report, including moving opinion to the first section	Listed and non-listed entities
Expanded descriptions of management's, those charged with governance and auditors' responsibilities	Listed and non-listed entities
Disclosure of name of the engagement partner	Listed entities
Description of key audit matters	Applicable only when required by law or regulation or when the auditors is engaged to do so

When are the new requirements effective?

The new and revised standards in Canada will be effective for audits of financial statements for periods ending on or after December 15, 2018 with early application permitted.

U.S. developments

In June 2017, the Public Company Accounting Oversight Board (PCAOB) adopted their enhanced auditor reporting standards which includes, among other requirements, discussion of critical audit matters (CAMs) (similar to key audit matters) and tenure of the auditor. Highlights and effective dates of the new U.S. standards are:

- New auditors' report format, tenure and other information: audits for fiscal years ending on or after December 15, 2017
- Communication of CAMs for audits of large accelerated filers: audits for fiscal years ending on or after June 30, 2019
- Communication of CAMs for audits of all other companies: audits for fiscal years ending on or after December 15, 2020.

Impact to Foreign Private Issuers in Canada

Auditors of foreign private issuers ("FPIs") are trying to address whether they can still issue a "combined" report (which most FPIs in Canada issue today) that meets both the CAS and PCAOB standards for:

- 2017 year-end engagements
- 2018 year-end engagements, when the revised CAS reporting standards are effective.

Determining the feasibility of a "combined" report is currently under review by the AASB. At this time, the major accounting firms in Canada have tentatively concluded that a combined report is possible and we believe the AASB will also conclude the same shortly. However, even if the firms and the AASB conclude that a combined report is possible, the matter of having a combined report will require the approval of the SEC and PCAOB, which may take until the fall of 2017. If the SEC and PCAOB determine that a combined report is not possible, auditors of FPIs may need to issue two reports; one referring to the CASs and one referring to the standards of the PCAOB.

Appendix 6: Current developments

Please visit the Audit Committee Institute / [Current Developments](#) page for current developments in IFRS, Canadian securities matters, Canadian auditing and other professional standards.

The following is a summary of the current developments that are relevant to the City:

Standard	Summary and implications
PS 3210 - Assets	<p>This standard provides a definition of assets and further expands that definition as it relates to control. Assets are defined as follows:</p> <ul style="list-style-type: none"> – They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows. – The public sector entity can control the economic resource and access to the future economic benefits. – The transaction or event giving rise to the public sector entity's control has already occurred. <p>The standard also includes some disclosure requirements related to economic resources that are not recorded as assets to provide the user with better information about the types of resources available to the public section entity. This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year end).</p> <p>Implications: Assets will have to be reviewed to determine if they meet this definition</p>
PS 3320 – Contingent Assets	<p>This standard is a disclosure standard and defines a contingent asset. They have two basis characteristics:</p> <ul style="list-style-type: none"> – An existing condition or situation that is unresolved at the financial statement date. – An expected future event that will resolve the uncertainty as to whether an asset exists. <p>The standard also has specific disclosure requirements for contingent assets when the occurrence of the confirming event is likely. This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year end).</p> <p>Implications: Additional disclosures may be required if contingent assets exist.</p>
PS 3380 – Contractual Rights	<p>This standard is a disclosure standard which defines contractual rights to future assets and revenue and sets out the required disclosures. Information about a public sector entity's contractual rights should be disclosed in notes or schedules to the financial statements and should include descriptions about their nature and extent and the timing. The standard also indicates that the exercise of professional judgment would be required when determining contractual rights that would be disclosed. Factors to consider include, but are not limited to:</p>

Standard	Summary and implications
	<ul style="list-style-type: none"> - contractual rights to revenue that are abnormal in relation to the financial position or usual business operations; and - contractual rights that will govern the level of certain type of revenue for a considerable period into the future. <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year end).</p> <p>Implications: Additional disclosures may be required if contractual rights to assets or revenue exist</p>
PS 2200 Related Party Disclosures	<p>This standard relates to related party disclosures and defines related parties. Related parties could be either an entity or an individual. Related parties exist when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties.</p> <p>Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. Material financial impact would be based on an assessment of the terms and conditions underlying the transaction, the financial materiality of the transaction, the relevance of the information and the need for the information to enable the users to understand the financial statements and make comparisons.</p> <p>This standard also specifies the information required to be disclosed including the type of transactions, amounts classified by financial statement category, the basis of measurement, and the amounts of any outstanding items, any contractual obligations and any contingent liabilities. The standard also requires disclosure of related party transactions that have occurred where no amounts has been recognized.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year end).</p> <p>Implications: Related parties will have to be identified. Additional disclosures may be required with respect to transactions with related parties.</p>
PS 3430 Restructuring Transactions	<p>This standard prescribes measurement standards and disclosure requirements when a restructuring transaction exists. A restructuring transaction in the public sector differs from an acquisition as they generally include either no or nominal payment. It also differs from a government transfer as the recipient would be required to assume the related program or operating responsibilities.</p> <p>The standard requires that assets and liabilities are to be measured at their carrying amount. It also prescribes financial statement presentation and disclosure requirements.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2018 (the City's December 31, 2019 year end).</p> <p>Implications: Not likely to impact the City.</p>
PS 3420 Inter-entity Transactions	<p>This standard relates to the measurement of transactions between public sector entities that comprise the government's reporting entity.</p> <p>Transactions are recorded at carrying amounts with the exception of the following:</p>

Standard	Summary and implications
	<ul style="list-style-type: none"> - In the normal course of business – use exchange amount - Fair value consideration – use exchange amount - No or nominal amount – provider to use carrying amount; recipient choice of either carrying amount or fair value. - Cost allocation – use exchange amount <p>This standard is effective for fiscal periods beginning on or after April 1, 2018 (the City’s December 31, 2019 year end).</p> <p>Implications: The City will have to identify these transactions and determine if they have been measured at the carrying amount if required.</p>
Financial Instruments	<p>A standard has been issued, establishing a standard on accounting for and reporting all types of financial instruments including derivatives. The effective date of this standard has recently been deferred and it is now effective for fiscal periods beginning on or after April 1, 2019 (the City’s December 31, 2020 year-end).</p> <p>Implications: This standard will require the City to identify any contracts that have embedded derivatives and recognize these on the consolidated statement of financial position at fair value. Portfolio investments in equity instruments are required to be recorded at fair value. Changes in fair value will be reported in a new financial statement – statement of remeasurement gains and losses. This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the City. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type. The risks to be considered include credit, currency, interest rate, liquidity, and market risk.</p>
Revised Standard on Foreign Currency Translation	<p>A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency.</p> <p>The effective date of this standard has been deferred and is effective for fiscal periods beginning on or after April 1, 2019 (the City’s December 31, 2020 year-end). Earlier adoption is permitted. An entity early adopting this standard must also adopt the new financial instruments standard.</p> <p>Implications: Exchange gains and losses arising prior to settlement are recognized in a new statement of remeasurement gains and losses.</p>

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