

Mission Statement

Freedom to Discover

Strategic Priorities

*A Community Beacon Relevant and Responsive
Learning and Innovative Organization*

HAMILTON PUBLIC LIBRARY BOARD**Special Meeting**

Wednesday, February 12, 2020

Central Library, Board Room

5:00 PM Meeting

AGENDA**Audit Planning Committee - Saman Al-Rawee**

1. **Present**
2. **Acceptance of Agenda**
3. **Appointment of Chair**
4. **HPL Audit Planning Report - Attachment #3 - TD/SA**
5. **Auditor and Audit Committee meet without Staff**
6. **Adjournment**

Date: February 12, 2020
To: Chair and Members of the Board
From: Tony Del Monaco, Director, Finance & Facilities
Subject: **HPL Audit Planning Report - Attachment #3 - TD/SA**

RECOMMENDATION:

THAT THE HAMILTON PUBLIC LIBRARY AUDIT COMMITTEE RECEIVE THE HPL AUDIT PLANNING REPORT FOR INFORMATION.

ATTACHMENTS:

Description	Upload Date	Type
HPL Audit Planning Report	2/4/2020	Cover Memo

Hamilton Public Library Board

Audit Planning Report
for the year ending
December 31, 2019

KPMG LLP

February 3, 2020

kpmg.ca/audit



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Executive summary



Audit and business risks

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- Operating expenditures including salaries and benefits
- Government grants
- Prepaid expenses
- Tangible capital assets
- Employee future benefits

See pages 3-7



Audit materiality

Materiality has been determined based on fiscal 2018 audited revenues. We have determined estimated materiality to be \$980,000 for the year ending December 31, 2019 (2018 - \$960,000).

Materiality will be reviewed based on year-end results to ensure sufficient and appropriate scoping set during our planning stages remains appropriate.

See page 8.





Executive summary



Independence and Quality Control

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.



Proposal Fees

Proposed fees for the annual audit are in accordance with those quoted in our most recent proposal to the City of Hamilton.

See page 10.



Current developments and Audit Trends

Please refer to page 11 for relevant accounting and/or auditing changes relevant to the Entity and relevant audit trends.

This Audit Planning Report should not be used for any other purpose or by anyone other than the Audit 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 risks

Professional requirements

Fraud risk from revenue recognition.

Why is it significant?

This is a presumed fraud risk.

We have not identified a fraudulent revenue recognition risk for each significant revenue account.

We have not identified any specific additional risk of fraud with respect to revenue recognition relating to this audit.

Our audit approach

We exercise professional judgment to rebut the presumed risk of fraud in revenue recognition after we consider and evaluate the facts and circumstances of the audit. We have rebutted this fraud risk as there is little perceived opportunity to commit fraud relating to revenue due to the fact that revenue transactions do not involve elements of significant judgement.

As part of our audit approach over revenue recognition, KPMG will test the Library's revenue through substantive analytical and substantive testing procedures





Audit risks

Professional requirements

Fraud risk from management override of controls.

Why is it significant?

This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

Our audit approach

Our audit approach incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments and making inquiries of the appropriate individuals:

- whether they have been asked to record, or are aware of, unusual or otherwise inappropriate journal entries or adjustments without adequate support or explanation for the entries or adjustments;
- Inquire whether there have been any instances of overrides of controls through recording of journal entries or other adjustments;
- Inquire whether there have been any journal entries or other adjustments that have been initiated by management outside the normal course of business,

We will also perform a retrospective review of estimates and evaluate the business rationale of significant unusual transactions.



Audit risks

Other areas of focus

Operating expenditures including salaries and benefits

Why are we focusing here?

Completeness, existence and accuracy of expenses and completeness of related accounts payable and accrued liabilities..

Our audit approach

We will perform substantive procedures to address the relevant risk. This includes reviewing significant accruals and agreeing to supporting documentation, as well as a search for unrecorded liabilities to assess completeness and accuracy of accruals at year-end.

We will perform substantive analytical procedures over payroll and non-payroll expenditures.



Audit risks

Other areas of focus

Government Grants

Prepaid expenses

Why are we focusing here?

Risk related to completeness and accuracy of timing of revenue recognition.

Completeness and accuracy of prepaid subscriptions. The Library continues to introduce more digital media resulting in more subscriptions.

Our audit approach

We will perform substantive procedures to address relevant risk. This includes agreeing significant receivables to subsequent receipts and confirming significant grant balances as well as determining if the recognition criteria have been met.

Performing a review of significant subscription agreements and assessing the prepaid portion as of the year end date, based on the period covered by the subscription agreements.



Audit risks

Other areas of focus

Tangible capital assets

Why are we focusing here?

Completeness and accuracy of tangible capital assets. Risk also related to existence, presentation and disclosure of any commitments related to the capital projects that may be on the City's financial statements.

Employee future benefits

Completeness and accuracy of the post retirement liability and related expenses.

Reliance is placed on the actuarial valuation and extrapolations performed by the actuaries in determining the accrued postemployment benefit liability at the end of the fiscal year.

Actuarial determination of both post-employment benefits and sick leave benefits is required under PSAB standards.

Our audit approach

Perform a of significant capital additions including agreeing to supporting documentation

We will examine major capital projects and any commitments requiring disclosure in the audited financial statements.

Perform substantive procedures, including review of assumptions and application of assumptions. Obtain access to management's expert (the actuaries) and their reports identifying the accrued benefit obligations for vested sick leave and retirement benefit liabilities.

Obtain a copy of the actuarial extrapolation of the liability for the year ending December 31, 2019.

We will review note disclosure to ensure it is appropriate.

Materiality

Materiality determination	Comments	Amount
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was \$960,000.	\$980,000
Benchmark	Based on prior year total revenues. This benchmark is consistent with the prior year.	\$32,760,425
% of Benchmark	The Corresponding percentage for the prior year's audit was 3.0%	3.0%
[Audit Misstatement Posting Threshold (AMPT)]	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$48,000	\$49,000

Materiality is used to scope the audit, identify risks of material misstatements 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.

We will report to the Audit Committee:



Corrected audit misstatements

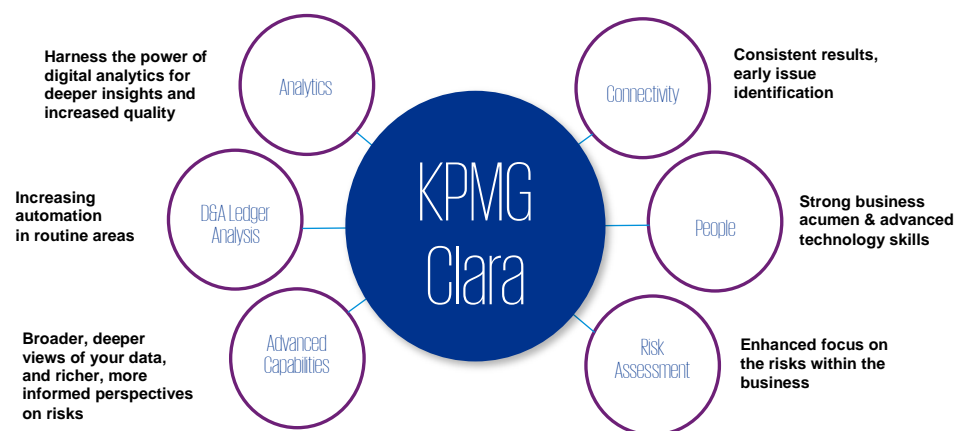


Uncorrected audit misstatements

The audit of today, tomorrow & the future

As part of KPMG's technology leadership, our audit practice has developed technologies and alliances to continuously enhance our capabilities and deliver an exceptional audit experience.

Technology empowers us with the ability to perform deep analysis over your financial information, focusing our effort and interactions on the areas of greatest risk and minimizing disruption to your business.



Technology we use today		
	Tool	Benefit to audit
↓	KPMG Clara Client Collaboration	KCCC is our secure audit platform and a one-stop shop through which we plan, execute and manage the audit, providing you with real-time access to the process at every step, including exchange of information and access to the real-time reporting you need in one central location.
	Journal Entry Analysis	Our journal entry tool assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.

Proposed fees



In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above. Our fees are as quoted in our most recent audit proposal approved by council.



Matters that could impact our fee

The proposed fees outlined 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 Entity 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 timing of our work
-

Current developments and audit trends

Please visit KPMG's [Audit Committee Institute \(ACI\) / Current Developments](#) page for current developments in IFRS, Canadian securities matters, Canadian auditing other professional standards and US accounting, auditing and regulatory matters. The following is a summary of the current developments that are relevant to the Entity:

Standard	Summary and implications
Revenue	<p>A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2022 (<i>for the Library's 2023 year-end</i>). The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement.</p> <p>The standard notes that in the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.</p>

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 will be of particular interest to you. We would, of course, be happy to further discuss this information with you at your convenience.

Thought Leadership	Overview	Links
Accelerate	Accelerate is a KPMG audit trends report and video series that includes the perspective of subject matter leaders from across KPMG in Canada on seven key issues impacting organizations today that are disrupting the audit committee mandate.	Link to report
The Blockchain shift will be seismic	Blockchain technology is a focused disruptor of the very foundations of external and internal audit: financial recordkeeping and reporting. This Audit Point of View article offers insight on how blockchain technology is impacting business and what audit committees should be thinking about to prepare for certain risks.	Link to report
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

Appendices



Appendix 1: Audit quality and risk management



Appendix 2: KPMG's audit approach and methodology



Appendix 3: Lean in Audit™



Appendix 4: Required Communications

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 most recent Audit Quality and Transparency Report.

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. We do not offer services that would impair our independence.

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.

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
- 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.

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

Appendix 2: KPMG's audit approach and methodology



This year we will expand our use of technology in our audit through our new smart audit platform, KPMG Clara.

Collaboration in the audit

A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team

Issue identification

Continuous updates on audit progress, risks and findings before issues become events

Data-driven risk assessment

Automated identification of transactions with unexpected or unusual account combinations – helping focus on higher risk transactions and outliers



Deep industry insights

Bringing intelligence and clarity to complex issues, regulations and standards

Analysis of complete populations

Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes

Reporting

Interactive reporting of unusual patterns and trends with the ability to drill down to individual transactions



Appendix 3: Lean in Audit™



An innovative approach leading to enhanced value and quality

Our innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and management. For example, we may identify control gaps and potential process improvement areas, while management has the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.



How it works

Lean in Audit employs three key Lean techniques:



1. Lean training

Provide basic Lean training and equip our teams with a new Lean mindset to improve quality, value and productivity.



2. Interactive workshops

Perform interactive workshops to conduct walkthroughs of selected financial processes providing end-to-end transparency and understanding of process and control quality and effectiveness.



3. Insight reporting

Quick and pragmatic insight report including immediate quick win actions and prioritized opportunities to realize benefit.



Appendix 4: Required communications



In accordance with professional standards, there are a number of communications that are required during the course of and upon completion 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 .



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 planning report

This report.



Audit findings report

At the completion of our audit, we will provide our audit findings to the Audit Committee.



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 of management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly.



Annual independence letter

At the completion of our audit, we will confirm our independence to the Audit Committee.



[CPAB Audit Quality Insights Report \(October 2019\) \(formerly the “Big Four Firm Public Report”\)](#)
[CPAB Annual Inspections Results \(March 2019\)](#)





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