Tuesday, March 05, 2019
1:00 p.m. – Regular Meeting

Closed Session (See Item 10) – Following Regular Business
(Under Section 239 of the Municipal Act, SO, 2001)

Council Chambers – 4th Floor – City Hall

Members:
Regional Councillor M. Medeiros – Wards 3 and 4 (Chair)
Regional Councillor R. Santos – Wards 1 and 5 (Vice-Chair)
Regional Councillor M. Palleschi – Wards 2 and 6
Regional Councillor G. Dhillon – Wards 9 and 10
City Councillor J. Bowman – Wards 3 and 4
City Councillor D. Whillans – Wards 2 and 6
City Councillor H. Singh – Wards 9 and 10

For inquiries about this agenda, or to make arrangements for accessibility accommodations for persons attending (some advance notice may be required), please contact:

Sonya Pacheco, Legislative Coordinator
Telephone (905) 874-2178, TTY (905) 874-2130, cityclerksoffice@brampton.ca

Note: Meeting information is also available in alternate formats, upon request.
1. Approval of Agenda

2. Declarations of Interest under the Municipal Conflict of Interest Act

3. Consent

* The following items listed with an asterisk (*) are considered to be routine and non-controversial by the Committee and will be approved at this time. There will be no separate discussion of any of these items unless a Committee Member requests it, in which case the item will not be consented to and will be considered in the normal sequence of the agenda.

(nil)

4. Delegations/Presentations

4.1. Delegation from Mr. Kevin Travers, Partner, KPMG LLP Chartered Accountants, re: KPMG Audit Plan for the 2018 Fiscal Year.

(See Item 6.1)

4.2. Presentation by F. Velji, Director and Chief Audit Executive, Office of Internal Audit, re: Office of Internal Audit Budget.

Recommendation


(See Item 5.1)

5. Reports – Internal Audit


(See Item 4.3)
6. **Reports – Finance**


(See Item 4.1)

*Recommendation*

7. **Other/New Business**

8. **Question Period**

9. **Public Question Period**

15 Minute Limit – (regarding any item discussed as part of this agenda)

10. **Closed Session**

Note: A separate package regarding these agenda items is distributed to Members of Council and senior staff only.

10.1. Personal matters about an identifiable individual, including municipal or local board employees – Citizen Appointments to Audit Committee

10.2. Personal matters about an identifiable individual, including municipal or local board employees – an identifiable individual

11. **Adjournment**

*Next Meeting:* Tuesday, March 19, 2019
AGENDA

▸ Summary

▸ 2018 Budget vs. Actuals

▸ Three Year Budget Submission

▸ Questions

▸ Motions for Consideration
SUMMARY

- Budget to actuals update as of December 31st, 2018
  - Year-to-date spend of $909K vs. budget of $1,120K
  - Budget variance for 2018 (-$212K) due to labour
# 2018 Budget vs. Actual

<table>
<thead>
<tr>
<th>Breakdown of Category</th>
<th>Budget</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour Expenditures</td>
<td>$854,640</td>
<td>$667,115*</td>
<td>$187,525</td>
</tr>
<tr>
<td>Other Expenditures</td>
<td>266,276</td>
<td>241,670</td>
<td>24,606</td>
</tr>
<tr>
<td>Net Expenditures</td>
<td>1,120,916</td>
<td>908,785</td>
<td>212,131</td>
</tr>
</tbody>
</table>

*actual labour expenses do not include year end payroll accrual
## 3 YEAR BUDGET SUBMISSION

<table>
<thead>
<tr>
<th>Accounts by Breakdown Category</th>
<th>2019 Annual Budget**</th>
<th>2020 Annual Budget</th>
<th>2021 Annual Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour Expenditures</td>
<td>$863 254</td>
<td>$863 254</td>
<td>$863 254</td>
</tr>
<tr>
<td>Other Expenditures</td>
<td>257 662</td>
<td>257 662</td>
<td>257 662</td>
</tr>
<tr>
<td>Net Expenditures</td>
<td>1 120 916</td>
<td>1 120 916</td>
<td>1 120 916</td>
</tr>
<tr>
<td>Variance (year over year)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

**Includes 1 FTE staff request with no budget impact
MOTIONS FOR CONSIDERATION:

▸ That the presentation by F. Velji, Director, Office of Internal Audit, to the Audit Committee Meeting of March 5, 2019 re: Office of Internal Audit Budget be received;

▸ That the 2019 Annual Budget for the Office of Internal Audit be approved as presented; and

▸ That the 2020 and 2021 Annual Budget for the Office of Internal Audit be endorsed, in principle, as presented.
Annual Report 2018
The Office of Internal Audit
2018:
A Year of Outreach and Awareness
Focus
Internal and external Reference Manuals updated

Integrity and Courage
Creation of a Fraud Awareness Program: re-launch of the Fraud Prevention hotline, presentations, articles, quiz series, and a ‘Bid Rigging and Detection’ event

Collaboration and Vision
Presentations to: MIAA, Sheridan College and Sandalwood Heights Secondary School students
Community Involvement: Urban Farm, United Way events, City of Brampton Eco Pledge initiative
Participated in the Municipal Elections on October 22
Our Mandate

We endeavour to provide the taxpayers of Brampton assurance that City services and resources are being administered in an effective, efficient, and economical manner.
Establishing Ourselves as Leaders

Conformance with IIA Professional Standards

- 2016: Partially Conforms 0%, Generally Conforms 0%
- 2017: Partially Conforms 40%, Generally Conforms 60%
- 2018: Partially Conforms 20%, Generally Conforms 80%

The Office of Internal Audit

Internal Audit is an independent, objective assurance, and consulting activity that is guided by a philosophy of adding value to improve the operations of the City of Brampton. It assists the City in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the City’s governance, risk management, and internal control.

The City first created an internal audit function in May of 1992, and since then the Internal Audit division has grown and adapted to the needs of a thriving municipality. The Division provides the City of Brampton’s Senior Management with the necessary recommendations to maintain the highest standards of stewardship and due diligence over corporate processes and public funds.

The Internal Audit division reports directly to the Audit Committee and only administratively to the Chief Administrative Officer (CAO) to maintain independence and objectivity, which is key to the type of work performed. The division’s reports are presented to the Audit Committee & Committee of Council on a quarterly basis. All reports can be found with the Audit Committee agenda for each meeting.
### Promoting Continuous Improvement

<table>
<thead>
<tr>
<th>Department</th>
<th>Total Number of Recommendations</th>
<th>P1</th>
<th>P2</th>
<th>P3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Services</td>
<td>19</td>
<td>-</td>
<td>17</td>
<td>2</td>
</tr>
<tr>
<td>Planning &amp; Development</td>
<td>4</td>
<td>-</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Brampton Fire &amp; Emergency Services</td>
<td>14</td>
<td>-</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td>Public Works &amp; Engineering</td>
<td>15</td>
<td>-</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td>Community Services</td>
<td>14</td>
<td>6</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>66</strong></td>
<td><strong>6</strong></td>
<td><strong>51</strong></td>
<td><strong>9</strong></td>
</tr>
<tr>
<td><strong>PERCENTAGE</strong></td>
<td></td>
<td><strong>9%</strong></td>
<td><strong>77%</strong></td>
<td><strong>14%</strong></td>
</tr>
</tbody>
</table>
An Example

2017 Property Tax Revenue Recommendation: *Internal Audit recommends that the Technical Services Team creates a dashboard of properties from CPDS which can accurately identify mismatched properties. This dashboard would be readily accessible to Taxation and Assessment management for review and investigation with MPAC......Furthermore, Internal Audit recommends exploring the feasibility of integration of TXM and CPDS.*

“Implementing an effective and automated web application for assessment review has been a significant improvement to our previous manual process.” M. Finnegan
## Engagement Performance

<table>
<thead>
<tr>
<th>Audit - Overall Performance</th>
<th>4.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>“I valued the input and advice from the engagement staff during this engagement”</td>
<td>4.3</td>
</tr>
<tr>
<td>“The final report and recommendations were useful to my department/division and will add value to operations through process improvements, efficiencies identified, metrics to help measure operational effectiveness or enhancements to current processes”</td>
<td>4.2</td>
</tr>
<tr>
<td>Consulting - Overall Performance</td>
<td>4.0</td>
</tr>
</tbody>
</table>
2018 Audit Themes

1. Policies and Procedures

2. Providing Sufficient and Ongoing Education and Training

3. Increasing Management Oversight including the use of Evaluation Tools

## Dashboard

### Measures

<table>
<thead>
<tr>
<th>WHAT DID WE DO?</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Audit Reports Issued</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Total Number of Reports issued to Audit Committee</td>
<td>27</td>
<td>18</td>
</tr>
<tr>
<td>Audit Recommendations Accepted</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Total Number of Audit Recommendations Issued</td>
<td>60</td>
<td>66</td>
</tr>
<tr>
<td>Audit Work Plan Completion</td>
<td>91%</td>
<td>80% **</td>
</tr>
<tr>
<td>Number of Consulting Reports Issued</td>
<td>3</td>
<td>4**</td>
</tr>
</tbody>
</table>

### WHO DID THE WORK?

| Approved Staff Complement                           | 6    | 6    |
| Number of Auditors (FTE) to Total Organizational Staff | 1:1000 | 1:1000 |
| Auditors with Professional Designations             | 100% | 100% |
| Annual Evaluations for Each Staff Member            | 100% | 100% |

### WHAT RESULTED FROM THE WORK?

| Audit Recommendations Implemented by Due Date        | 86%  | 69%  |
| Cost-Savings                                        | $100 000 | - |
| Recovered Revenue                                   | $198 000 | $800 **|
| Estimated Potential Revenue                         | -    | $1 008 449 |
| Survey Results: Audit Overall Performance           | 4.3/5 | 4.2/5 |
| Survey Results: Consulting Overall Performance      | 5/5  | 4/5  |
Our Team

Foruzan Velji, CPA, CA, CFI, CISA
Director and Chief Audit Executive

Sabrina Cook, MA
Coordinator, Research & Administrative Services

Gail Constantine, CIA, CCSA, CRMA
Senior Advisor

Richard Gervais, CISA, CISSP
Senior Advisor, IT Audit

Ella Kila, CPA, CA, CRMA
Senior Advisor

Atma Narayanaswami, CPA, CA, CIA, CISA
Senior Internal Auditor

Reem El-Chaer, CPA, CA*
Senior Internal Auditor
The Office of Internal Audit
Annual Report 2018
2018: A Year of Outreach and Awareness

In 2017, with a new Director in place, The Office of Internal Audit undertook a full review of the division, focusing on internal initiatives to ensure a solid foundation. Changes undertaken in 2017 included creating divisional goals and strategy, hiring new staff and updating methodologies, processes and procedures. We welcomed 2018 turning our attention to increasing the level of understanding and awareness of our work, not only amongst our peers but also in our community.

2018 marked a year of increased awareness of the City of Brampton’s internal audit function and a continuation of the cultivation of progressive, collaborative relationships. The result was continued positive feedback and appreciation from senior management and City staff related to our work and experiences with our team members. We consider it critical to dispel the common perception that internal audit and auditors are combative and confrontational. We envision ourselves as catalysts for change – a change that will drive further successes for the City as we work together to achieve the City’s bold vision.

We embrace focus, integrity, courage, collaboration and vision in all that we do, and our team’s hard work and passion truly embodies these qualities.

FOCUS

In the spring of 2018, we updated the Audit Committee Reference Manual, distributing it to members of Audit Committee and Council, as well as making it available online at brampton.ca. The Reference Manual provides relevant resources for Audit Committee members including divisional information on the Office of Internal Audit. The Reference Manual will be reviewed and updated annually.

We have updated and refreshed our Internal Audit Procedures Manual. The updated Manual will ensure ongoing consistency of internal processes, procedures and best practices. In addition, the Manual has been referenced to the Institute of Internal Auditors (IIA) Standards and will be reviewed and updated on an as-needed basis.

INTEGRITY AND COURAGE

The City’s fraud framework consists of both the Fraud Policy as well as the Fraud Prevention Hotline. In March, Council approved the updated Fraud Policy. Given the need to share the content of the updated Policy, an opportunity was created to re-launch the Fraud Prevention Hotline in order to ensure that all employees not only understood the content of the updated Fraud Policy but were provided with information on the Fraud Prevention Hotline and the importance of fraud prevention throughout the City. It became apparent that creating a fraud awareness program for the City was necessary in order to ensure that relevant resources and materials would always be available to City staff.

The 2018 fraud awareness program included speaking to 34 groups across the City, launching a “Fraud Awareness Week Quiz Series” for staff, hosting a Bid Rigging and Detection event with the Canadian Competition Bureau and publishing a series of fraud prevention and awareness articles for Connections, an internal publication. We worked with the Human Resources division to create a mandatory acknowledgment of the updated Fraud Policy for all new City employees.
The creation of a fraud awareness program this year provided City staff with information and materials on fraud risk, areas for potential risk and how to address this risk in their daily functions and responsibilities.

Through the internal staff portal and Connections we published a series of articles to inform our colleagues in the City about the internal audit function. Providing information related to our function demystifies the work that we do and allows for greater collaborations as well as deeper and more meaningful discussions.

COLLABORATION AND VISION

In October our team attended the Municipal Internal Auditors Association (MIAA) Fall Conference, where for the first time, we participated as presenters. Our presentation highlighted the findings from our By-Law Enforcement/Parking Infractions audit to our colleagues from other Canadian municipalities. These bi-annual conferences are an excellent opportunity for us to network and engage with our peers, stay connected with the work other municipalities are doing and showcase the changes taking place in Brampton. In addition, at Council Orientation Training Sessions in December, we were given time for a short presentation about our function, providing information on our mandate, our independence and outlining our accomplishments over the past year.

In December we spoke to Sheridan College students in an Audit and Assurance class about internal audit at the City of Brampton, encouraging the students to become involved in their communities and local government. Finally, we hosted a group of grade 11 and 12 students from Sandalwood Heights Secondary School who are enrolled in a specialized Business program. Their visit consisted of a tour of City Hall and the Mayor’s Office, as well as presentations from Corporate Services, the Planning team, Strategic Communications and the Office of Internal Audit. We were greatly inspired by both the Sheridan and Sandalwood students’ enthusiasm, energy, vision and intelligence. We saw our future Brampton leaders in these groups of students and hope they will continue to stay connected with us and with the City.

On Election Day, October 22, 2018, we volunteered in Ward 10 at the Brampton Soccer Centre along with other City employees and devoted Brampton citizens. It was inspiring to see the enormous voter turnout and to speak with the engaged citizens of Brampton, including so many young people who were voting for the very first time!

We had the pleasure of participating in the City’s many United Way events throughout the year, not only raising funds but also creating awareness and dialogue about Brampton’s diverse population and socio-economic composition. We adopted Centennial Park as part of the City’s ‘Eco Pledge Challenge’ and spent time together mulching and picking up garbage.Lastly, we worked at an urban farm with our IIA colleagues, where we learned about food insecurity and the importance of accessibility for all community members. Community involvement inspires us and fuels our passion. Both our team and the community benefit as a result.

MOVING FORWARD FROM 2018

Our focus on outreach and education throughout 2018 embodies our commitment to collaborate and share information with our colleagues across the City, our colleagues in public and private sector Internal Audit functions and with Brampton’s citizens, especially its youth. Focus, integrity, courage, collaboration and vision are qualities that define leadership. Leaders are bold and facilitate change. Our team upholds these qualities in the conduct of all of our engagements, through outreach and awareness activities and especially in our community activities.
2018 was a pivotal year for our team.

Looking forward into 2019, we remain committed to our Mandate and ensuring that our work will facilitate the change to make Brampton’s bold vision a reality.
Our Mandate

The Office of Internal Audit performs independent and objective assurance and consulting activities that are guided by a philosophy of adding value to improve the operations of the City of Brampton.

We assist the City in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization’s governance, risk management and internal controls.

Our team provides objective and independent assessments on the effectiveness and efficiencies of controls and processes; valuable and practical recommendations to assist management in improving processes and procedures; as well as providing consulting services to management and staff on current and future initiatives.

The City of Brampton places an emphasis on good corporate governance through: educating and engaging the citizens of Brampton in transparent and accountable ways that show value and enhance the image of the City, investing in a collaborative environment with supportive organization and governance practices and policies and lastly, practicing the proactive, effective and responsible management of municipal assets and services. Good governance is a critical foundational element that reinforces the City’s transformational shift in its operations and The Office of Internal Audit is an integral part of the City’s Corporate governance structure.

The Office of Internal Audit reports to Council through Audit Committee; this direct reporting relationship accomplishes the following objectives:

- Enhances our independence and objectivity;
- Enhances Council’s oversight and stewardship responsibilities given the impartial, objective, and independent review of management practices that we perform;
- Provides a focal point for improved communication between Council, The Office of Internal Audit and Management.

The primary focus of The Office of Internal Audit is to ensure that City processes and related controls are functioning as intended. We determine if services can be improved or become more efficient and ensure that the resources of the City are being used effectively.

**Ultimately, we endeavour to provide the taxpayers of Brampton assurance that City services and resources are being administered in an effective, efficient and economical manner.**
The Institute of Internal Auditors’ (IIA) *International Standards* (Standards) require internal auditors to be independent and objective in performing their work. The IIA provides the following interpretation:

“Independence is the freedom from conditions that threaten the ability of internal audit to carry out their responsibilities in an unbiased manner.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.”

**Being independent allows the Office of Internal Audit to provide objective assessments of the City of Brampton’s operations; this includes audit selection, scope, procedures, timing and content.**

The Office of Internal Audit’s independence is assured as a result of the following:

- Direct reporting relationship to City Council through Audit Committee
- Audit Committee approval of the Office of Internal Audit’s Budget
- Audit Committee approval of the Internal Audit Charter
- Audit Committee approval of the Annual Audit Workplan
- No direct operational responsibility or authority over any operational activity
- Audit Committee and the CAO jointly determine matters of performance and employment of the Chief Audit Executive (CAE)
- The addition of citizen members on Audit Committee (new for 2019; endorsed by Council in 2018)
Our Accomplishments

The Office of Internal Audit's divisional goals for 2018 focused on three main themes: **leadership, performance** and **collaboration**.

**Goal 1: Establishing Ourselves as Leaders in Internal Audit**

*The Office of Internal Audit at the City of Brampton will become an established leader in internal audit:*

a) **Internal Audit will update the divisional methodology so that it is reflective of current trends and changes in the environment**
b) **Internal Audit will engage with City staff and forge deeper relationships with other municipalities and/or other internal audit functions**
c) **Auditors will have core competencies and sufficient training / technical knowledge to undertake any engagement**
d) **Auditors will be professional, objective, knowledgeable and courteous**

**Goal 1 Accomplishments**

The Office of Internal Audit performs an internal assessment (IQA) of its processes on an annual basis in accordance with the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing ("Standards"). The IQA results demonstrate that the work to enhance the internal audit methodology and best practices planned and undertaken by the CAE has resulted in a significant improvement towards full conformance with the Standards (Figure 1). The IQA also assesses the Office of Internal Audit’s function against best practices in internal auditing. The results of this assessment shows the same trend (Figure 2).

*Figure 1: Conformance with IIA Professional Standards*

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1 See Appendix 5 for the 2019 Divisional Goals
Figure 2: Assessing 6 Best Practices in Internal Audit

The quality of the work our Office produces continues to receive positive feedback from the Corporate Leadership Team (CLT), management and Audit Committee. In order to tackle the ambitious and comprehensive plans for the year, including audits, new initiatives and special projects, we continued to grow our team and hired several new staff members, all of whom bring with them great depth of knowledge and broad experiences in both the public and private sectors. Our team is involved in ongoing training opportunities, with industry associations and professional organizations such as MIAA, IIA, ISACA, ACFI, ACFE, CPA Canada and the ALGA. The Director/CAE became involved as a volunteer with both the IIA public sector subcommittee as well as the IIA Toronto Chapter. We have regular meetings with our peers in other municipalities in order to foster collaboration, innovation and an open exchange of ideas and information.

Appendix 3 is a screen capture of the Office of Internal Audit page on brampton.ca. In 2018, to increase our function’s transparency to residents, we created this webpage, which includes information on our mandate, workplan, scorecard, and links to current Audit Committee Meeting agendas.

The City’s Fraud Policy was updated and in March 2018, this was approved by Council. As a result, the Office of Internal Audit re-launched the Corporate Fraud Prevention Hotline and worked diligently throughout the year to educate City staff on the Hotline, the updated Policy and fraud prevention. In addition, a Fraud Standard Operating Procedures (SOP) was created to ensure consistency in practices. This work on fraud awareness provides City staff with the tools to address potential risks and reflects the corporate values of trust, integrity and courage.

The Office of Internal Audit is committed to continuing to collaborate with management in identifying, reviewing, improving and updating policies, procedures and processes on a regular basis and enhancing process efficiencies and effectiveness. Being proactive and adapting to change will allow us to foster an environment of continuous improvement which we believe is a leading best practice.

Goal 2: Promoting an Environment of Continuous Improvement

*Partner with City departments / divisions in achieving the City’s strategic goals*
a. Keep a “future ready” focus and look for opportunities to improve City processes. Benefits may include: increased efficiencies, enhanced process effectiveness, new automation or leveraging current technology, cost savings, increased revenue, increased capacity as well as addressing any identified control weaknesses
b. Undertake special projects (special review, advice, participation on project committee) to provide value added services to the City
c. Foster an environment of continuous improvement by being seen as a value added trusted advisor; auditors will proactively engage with all City staff.

Goal 2 Accomplishments:

The Office of Internal Audit has created professional and collaborative relationships within the City’s operating departments, while maintaining our independence. These relationships foster ongoing open discussions and a willingness to continuously improve processes. We evaluate our engagements as having added value when management accepts the recommendations outlined in our audit reports and works diligently to implement these recommendations in a timely fashion.

Management addresses all recommendations through ‘Management Action Plans’ (MAPs), which are resolved by specific dates identified in each audit report. On a quarterly basis, management submits an update to the Office of Internal Audit on the progress achieved on any outstanding recommendations. The Office of Internal Audit notes that management was proactive in addressing the audit recommendations in 14 cases where recommendations were completed before their target completion date.

A summary of each department’s audit recommendations is shown in Table 1 and Figure 3. This Table along with Figure 3 highlight that management completed 69% of the outstanding MAPs by their anticipated due dates. While the completion percentage is lower than last year’s, management’s quarterly progress reporting has expressed the importance of implementation and that work is ongoing to ensure completion based on updated timelines.

Table 1: Audit Recommendations by Department

<table>
<thead>
<tr>
<th>Department</th>
<th>Net Recommendations Issued &amp; Outstanding</th>
<th>Management Actions Completed by December 31, 2018</th>
<th>Anticipated Completion by December 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Services</td>
<td>33</td>
<td>15</td>
<td>29</td>
</tr>
<tr>
<td>Planning &amp; Development</td>
<td>6</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Brampton Fire &amp; Emergency Services</td>
<td>14</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>Public Works &amp; Engineering</td>
<td>15</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>Community Services</td>
<td>17</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Office of the CAO</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Library</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Transit</td>
<td>2</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
The Office of Internal Audit completed 10 audits in the calendar year. Six of the 10 audits were presented to Audit Committee, and one of these six audits was outsourced to KPMG. The following analysis relates to the six audits presented to Audit Committee.

Tables 2 and 3 along with Figures 5 and 6 provide a breakdown of the risk categories (risk categories are defined in Appendix 7) of the recommendations in our 2018 and 2017 audits. The risk categories P1 and P2 represent 86% of the 2018 recommendations and 58% of the 2017 recommendations, highlighting that there are still many opportunities for improvement throughout the City.

Table 2: 2018 Recommendations by Rating

<table>
<thead>
<tr>
<th>Department</th>
<th>Total Number of Recommendations</th>
<th>P1</th>
<th>P2</th>
<th>P3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Services</td>
<td>19</td>
<td>-</td>
<td>17</td>
<td>2</td>
</tr>
<tr>
<td>Planning &amp; Development</td>
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</tr>
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</tr>
<tr>
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<td>2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>66</strong></td>
<td><strong>6</strong></td>
<td><strong>51</strong></td>
<td><strong>9</strong></td>
</tr>
<tr>
<td><strong>PERCENTAGE</strong></td>
<td></td>
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Table 3: 2017 Recommendations by Rating

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<tr>
<th>Department</th>
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<th>P2</th>
<th>P3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Administrative Office</td>
<td>13</td>
<td>3</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>Brampton Library</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>Corporate Services</td>
<td>32</td>
<td>14</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Community Services</td>
<td>8</td>
<td>-</td>
<td>-</td>
<td>8</td>
</tr>
<tr>
<td>Planning &amp; Development Services</td>
<td>3</td>
<td>-</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>60</td>
<td>17</td>
<td>18</td>
<td>25</td>
</tr>
<tr>
<td>PERCENTAGE</td>
<td></td>
<td>28%</td>
<td>30%</td>
<td>42%</td>
</tr>
</tbody>
</table>

Figure 5: 2018 Audit Recommendations by Priority

RECOMMENDATIONS BY PRIORITY

- P1
- P2
- P3
The Office of Internal Audit also performs consulting engagements, usually at the request of management. In 2018, the Office of Internal Audit noted an increase in the number of requests by management to assist in various consulting projects. The increase in requests is an indicator of the strengthened trust of management in the quality of the work we undertake.

The 2017 Property Tax Revenue Audit included a recommendation that a dashboard be created for the use of the Taxation and Assessment management team. The dashboard would access information related to building permits for review and investigation with MPAC. The use of the dashboard would allow for faster reviews of properties in relation to their tax bases. Previously, this was a manual process that was quite time consuming. Automation and integration of existing systems not only leverages information from different databases, it allows for data to be put together in meaningful ways in order to enhance management decision making, allows for improved delivery of timely information and increases efficiencies in processes.

In 2018, Phase 1 of “Tax Supp Reviewer” was tested and launched. Martin Finnegan and his team from the Taxation and Assessment section of the Finance division worked diligently with Paul Postiglione and his team from the GIS and Open data section of Digital Innovation & IT. The end result was an automated web application that reduces review time, increases efficiencies and allows for a faster review process.

“Implementing an effective and automated web application for assessment review has been a significant improvement to our previous manual process” – M. Finnegan.

We congratulate these teams for their success in undertaking this initiative and look forward to the launch of Phase 2.
Goal 3: Performing all of our Engagements with Professionalism

Perform engagements using a risked based approach that identify opportunities for efficiencies, process improvements, automation, cost savings, increased revenue, increased capacity as well as ensuring compliance to applicable policies, procedures, regulations and/or by-laws. Engagements will be performed efficiently and effectively while achieving overall client satisfaction.

a. Engagements include financial, operational, compliance, Value for Money, information systems audits, other reviews, investigations and consulting work included in the audit work plan
b. Final reports will be clearly conveyed, concise, accurate and relevant
c. Engagements will consider utilization of analytics as well as continuous auditing tools
d. Client post engagement feedback will measure overall satisfaction of the engagement

Goal 3: Accomplishments:

The Office of Internal Audit continues to work closely with management through one-on-one quarterly meetings with all CLT members as well as ongoing conversations regarding changing risks, anticipated process changes and any other operational changes or identified needs. These conversations have resulted in an increased demand for consulting work and assistance in other initiatives.

After every engagement an anonymous online survey is sent to all City of Brampton staff who were involved in the engagement. We ask for feedback on their experience with the engagement through a series of 10 questions. The post-engagement survey results (Figure 7) illustrate the effectiveness of the collaboration and the value that the Office of Internal Audit provides.
Rating results are ranked from 1-5 as follows: great job (5), well done (4), mediocre (3), fair (2), and unsatisfactory (1).

The following survey feedback was received for all completed engagements:

<table>
<thead>
<tr>
<th>Audit- Overall Performance</th>
<th>4.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>“I valued the input and advice from the engagement staff during this engagement”</td>
<td>4.3</td>
</tr>
<tr>
<td>“The final report and recommendations were useful to my department/division and will add value to operations through process improvements, efficiencies identified, metrics to help measure operational effectiveness or enhancements to current processes”</td>
<td>4.2</td>
</tr>
</tbody>
</table>

| Consulting- Overall Performance | 4.0 |

The 2018 survey results did not differ significantly from the 2017 survey results, attesting not only to City staff satisfaction in our performance but also to the consistency of that performance year over year.
In May 2018, Council endorsed **Brampton’s 2040 Vision**. This bold vision celebrates the mosaic that we are and offers great opportunity for Bramptonians and City staff. The vision also requires progressive thinking and collaborative approaches on the issues that we face and encourages us to think outside the box. Brampton’s 2040 Vision is based on redefining what a ‘bedroom community’ looks like, while creating a vibrant city where people will live, work and play in harmony with nature and one another.

The Office of Internal Audit reviewed the completed 2018 audits and identified these recurring themes as opportunities for continuous improvement to be addressed by management:

1. **Policies and Procedures**

   We found outdated policies that were not reflective of current practices, as well as a lack of regular updates and reviews of policies.

   Having updated policies that reflect current practice provides greater transparency and ensures consistency of practice for all staff. In addition, having a methodology with which to review and update policies on a regular basis ensures that all policies remain relevant.

2. **Providing Sufficient and Ongoing Education and Training**

   Over the past year there has been significant change throughout the City including new staff, new technology and new processes. Providing all staff with sufficient training on the work they perform ensures consistency of practice. In addition, having ongoing training available ensures staff understand the current practices and processes. Our audits found that many processes were not well understood, or that sufficient training was not available as a resource for staff.

3. **Increasing Management Oversight including the use of Evaluation Tools**

   Changing processes throughout the Corporation requires sufficient management oversight to ensure appropriate controls are in place in order to reduce any new exposures to risk. In our audits, we found that management oversight was needed in order to ensure the efficiency of processes. Given the volume of digital information throughout the City, management oversight through performance measures, exception reporting, post-evaluation reviews and predictive analytics should be considered.


   Our audits found many manual processes throughout the City. Assessing the current manual processes for opportunities to automate will provide increased efficiencies as well as a potential increase in staff capacity. We recommend that management proactively consider automation for many time consuming manual processes.
As part of the City of Brampton's commitment to protecting its assets and to the principles of accountability, transparency, honesty and respect, the Corporation has established a framework to prevent, detect and report incidents of fraud and a process to investigate and report on fraudulent acts. This initiative reflects the City’s ongoing efforts to demonstrate our commitment to responsible, sound and ethical operating practices. The Fraud Prevention Policy and the Fraud Hotline are components of this framework. They complement other existing policies, which, taken together, are intended to support and strengthen our commitment to the City’s Corporate values (courage, trust, compassion, and integrity), to promote and maintain a high level of integrity of our employees so that they feel empowered to do the right thing and to ensure the City’s assets are protected.

The City’s Fraud Prevention Hotline was established in July 2016 to provide all City staff with a convenient, secure, confidential and anonymous way to report possible incidents of fraud. The City uses a third-party service provider, ClearView Connects, to manage its Hotline.

Since the launch of the Fraud Hotline there have been a total of 23 reports of alleged fraud. In 2018, 12 reports were received. Figure 8 provides summary information about these 12 reports. Internal Audit conducted investigations of all 12 reports, three of which have been closed, and nine of which are open. A noteworthy observation in Figure 8 is that in 2018, 50% of the reports were client transcribed, 33% were online, and 17% by a Hotline Live Agent. This is a change from 2017, where 64% of the reports received were client transcribed, 27% by mail, and 9% online. The change in the means by which reports are now received appears to indicate an increased trust in reporting through our third-party Hotline.

Figure 8: 2017 & 2018 Report Intake by Method
ClearView Connects provided The Office of Internal Audit with a Benchmarking report of other Canadian municipalities (Clients) that are ClearView clients for the period December 1, 2017 to November 30, 2018. Comparing this year’s Benchmarking report to last year’s revealed the following:

1. The Client average of reports received was 31.67 (in 2017 this was 42.75). The City of Brampton reports received was 15 (in 2017 this was three). Figures 9 and 10 provide a summary of the 2018 and 2017 reports received.
2. The City of Brampton report intake method was as follows: 60% transcribed by the Office of Internal Audit, 13% hotline- live agent and 27% web. In the previous year, 100% of the reports were transcribed by The Office of Internal Audit.

Given the City of Brampton experience in comparison to the Client average experience from 2017 to 2018, we note that the gap has started to close between the two. While we expect the number of reports received to fluctuate each year, comparing the City’s experience to the Client average experience does provide a means by which to evaluate the effectiveness of the Hotline.

Figure 9: Reports Received: City of Brampton vs Client Average (December 1, 2017-November 30, 2018)
In reviewing the activity of the Fraud Hotline, we have established the following chronology:

- Subsequent to the launch of the Fraud Hotline in July 2016, five reports were received from August – November 2016;
- Between November 2016 – June 2017 no reports were received;
- Between June– December 2017, six reports were received; and
- Between March–November 2018, 12 reports were received.

Given that the updated Fraud Policy was approved by Council in March 2018, we are encouraged to see the 100% increase in the number of reports received subsequent to the approval of the Policy. This can be attributed to the significant number and types of fraud awareness activities undertaken in 2018:

- 34 fraud presentations made throughout the City
- Nine fraud articles in print and online
- Fraud awareness program, which included the issuance of fraud posters (Appendix 1) throughout the City of Brampton and an update of the fraud prevention hotline material on the City’s intranet
- Implementation of an initiative to coincide with International Fraud Awareness Week in November 2018, which included the distribution of materials, issuance of promotional posters, as well as an online quiz contest (Appendix 2)
The following is a summary of the Fraud Hotline activities in 2017 and 2018:

- 18 complaints were made, involving 27 allegations, all of which were investigated.
- 28% of the 18 complaints investigated were substantiated in whole or in part. This number may increase as complaints being investigated are concluded in 2019.
- Substantiated complaints include operating a personal business, misuse of City resources, and time theft.
- None of the substantiated complaints were anonymous.
- Actions taken include:
  - Employees being disciplined;
  - The Office of Internal Audit performing a review to provide recommendations for control gaps identified; and
  - Other action was taken, including reinforcing workplace expectations.

The City’s Fraud framework and fraud awareness program were created in 2018. The 100% increase in the number of reports received highlights the increased awareness of fraud throughout the City, as well as the need for this program on an ongoing basis.

Moving forward to 2019, our focus will be to create a more robust fraud awareness program so that every employee understands the risks related to fraud and knows how to proactively address them.
**Internal Audit Dashboard**

### MEASURES

<table>
<thead>
<tr>
<th>WHAT DID WE DO?</th>
<th>2017</th>
<th>2018 *</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Audit Reports Issued</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Total Number of Reports issued to Audit Committee</td>
<td>27</td>
<td>18</td>
</tr>
<tr>
<td>Audit Recommendations Accepted</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Total Number of Audit Recommendations Issued</td>
<td>60</td>
<td>66</td>
</tr>
<tr>
<td>Audit Work Plan Completion</td>
<td>91%</td>
<td>80% **</td>
</tr>
<tr>
<td>Number of Consulting Reports Issued</td>
<td>3</td>
<td>4**</td>
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<table>
<thead>
<tr>
<th>WHO DID THE WORK?</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Approved Staff Complement</td>
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<td>6</td>
</tr>
<tr>
<td>Number of Auditors (FTE) to Total Organizational Staff</td>
<td>1:1000</td>
<td>1:1000</td>
</tr>
<tr>
<td>Auditors with Professional Designations</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Annual Evaluations for Each Staff Member</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>WHAT RESULTED FROM THE WORK?</th>
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<tbody>
<tr>
<td>Audit Recommendations Implemented by Due Date</td>
<td>86%</td>
<td>69%</td>
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<tr>
<td>Cost-Savings</td>
<td>$100 000</td>
<td>-</td>
</tr>
<tr>
<td>Recovered Revenue</td>
<td>$198 000</td>
<td>$800 **</td>
</tr>
<tr>
<td>Estimated Potential Revenue</td>
<td>-</td>
<td>$1 008 449</td>
</tr>
<tr>
<td>Survey Results: Audit Overall Performance</td>
<td>4.3/5</td>
<td>4.2/5</td>
</tr>
<tr>
<td>Survey Results: Consulting Overall Performance</td>
<td>5/5</td>
<td>4/5</td>
</tr>
</tbody>
</table>

* The last Audit Committee meeting in 2018 was in June. These results reflect activity until June 2018.

** 8 audits in the 2018 Workplan and 4 consulting reports were completed by December 31, 2018.
Who We Are

**Foruzan Velji, CPA, CA, CFI, CISA**
Director and Chief Audit Executive

**Sabrina Cook, MA**
Coordinator, Research & Administrative Services

**Gail Constantine, CIA, CCSA, CRMA**
Senior Advisor

**Richard Gervais, CISA, CISSP**
Senior Advisor, IT Audit

**Ella Kila, CPA, CA, CRMA**
Senior Advisor

**Atma Narayanaswami, CPA, CA, CIA, CISA**
Senior Internal Auditor

**Reem El-Chaer, CPA, CA**
Senior Internal Auditor (on leave)

*Pictured left to right: Ella Kila, Sabrina Cook, Foruzan Velji, Richard Gervais, Gail Constantine, and Atma Narayanaswami*
Appendix 1: Fraud Prevention Hotline Re-Launch Poster

BE A HERO

SPEAK UP WITH CONFIDENCE

If something doesn’t look right, use the Fraud Hotline to report it.

It’s anonymous, secure and confidential.

Be brave.

Be a hero for Brampton.

SUBMIT A REPORT

Have questions about the hotline?
Appendix 2: Fraud Awareness Week Poster

PROUD SUPPORTER OF

INTERNATIONAL
FRAUD AWARENESS WEEK

November 11-17, 2018

Fraud costs the world $3.7 trillion each year. I’m doing my part to stop it.

I won’t stand for fraud.

I’m a hero for Brampton.

Ask me how you can prevent fraud.

FraudWeek.com #fraudweek

Fraud Week is sponsored by ACFE Questions? Ask Internal Audit. Brampton

internalaudit@brampton.ca
Internal Audit is an independent, objective assurance, and consulting activity that is guided by a philosophy of adding value to improve the operations of the City of Brampton. It assists the City in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the City's governance, risk management, and internal control.

The City first created an internal audit function in May of 1987, and since then the Internal Audit division has grown and adapted to the needs of a thriving municipality. The Division provides the City of Brampton’s Senior Management with the necessary recommendations to maintain the highest standards of stewardship and due diligence over corporate processes and public funds.

The Internal Audit division reports directly to the Audit Committee and only administratively to the Chief Administrative Officer (CAO) to maintain independence and objectivity, which is key to the type of work performed. The division’s reports are presented to the Audit Committee (a Committee of Council) on a quarterly basis. All reports can be found with the Audit Committee agendas for each meeting.
Thank you for allowing us the opportunity to speak with you today! We hope you find this session informative and inspiring.

The primary focus of the Office of Internal Audit is to ensure that City processes and related controls are functioning as intended. We determine if services can be improved or become more efficient, and ensure that the resources of the City are being used effectively. Ultimately, we endeavor to provide the taxpayers of Brampton assurance that City services and resources are being administered in an effective, efficient, and economical manner.

We report directly to the Audit Committee and only administratively to the Chief Administrative Officer (CAO) to maintain independence and objectivity, which is key to the type of work performed. The division’s reports are presented to the Audit Committee (a Committee of Council) on a quarterly basis.

For more information on what we do and to read our audit reports, please visit: https://www.brampton.ca/EN/City-Hall/Office-Internal-Audit/Pages/Welcome.aspx

If you have any questions, please contact:

Foruzan Velji, Director & CAE  
foruzan.velji@brampton.ca  
905 874 2215

Sabrina Cook, Coordinator  
sabrina.cook@brampton.ca  
905 874 2053
How To Identify Fraud: Do You Know What To Look For?

The most common method of detecting fraud is through tips reported by employees using a hotline. In many cases the warning signs may have been clear, but no one was paying attention and the fraud went undetected. **Would you know what to look for?**

Here are some warning signs or “red flags” of fraud that you should be aware of:

**Behavioural Red Flags**

- An employee living beyond his/her means
- Financial difficulties
- Control issues, unwilling to share duties
- Unusually close relationship with vendor/customer
- Employees who feel the rules don’t apply to them (wheeler/dealer attitude)
- Family problems
- Addiction problems
- Unwilling to take vacation days
- Past employment-related problems
- Complaining about inadequate pay
- Excessive pressure from within the organization (to meet performance targets $ or #)
- Past legal problems
- Excessive family/peer pressure for success
- Complaining about lack of authority

**Financial/Transactional Red Flags**

- Excessive write-offs of accounts receivable
- Unexplained cash discrepancies (e.g. consistent shortages in cash float/petty cash)
- Sub ledgers that do not reconcile with the general ledger
- Frequent tips or complaints about an employee from customers about billing/amounts owed or from vendors about payments
- Rise in “soft” costs (i.e. advertising, consulting, etc.)
- Voided, destroyed or missing cheques
- Inventory shortages

The warning signs above do not always mean that fraud is taking place. However, if one or more of the signs exist, it is an indication that you should take another look at the processes or activities that allow these situations to occur. If the red flags have been persistent, you should report it to your supervisor or to the Fraud Prevention Hotline.

**Fraud awareness is everyone’s responsibility. Do the right thing.**
**Be a hero for Brampton.**
APPENDIX 5: 2019 DIVISIONAL GOALS

DIVISIONAL GOALS 2019

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the City of Brampton. It assists the City in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management and internal control.

Divisional Goals:

1. Establishment as a Leader in Internal Audit

   The Office of Internal Audit at the city of Brampton will become an established leader in internal audit

   a. Internal audit will develop and maintain an audit framework which incorporates best practices and ensures audit effectiveness

   b. Internal Audit will engage with City staff and forge deeper relationships with industry organizations, other municipalities and/or other internal audit functions

   c. Auditors will have core competencies and sufficient training / technical knowledge to undertake any engagement

   d. Auditors will be professional, objective, knowledgeable and courteous

2. Collaboration and Continuous improvement

   Foster an environment of continuous improvement: Partner with city departments / divisions to assist them in achieving the City’s strategic priorities; Identify opportunities to improve City processes; Undertake special projects (special review, advice, participation on project
committee) to provide value added services to the City. The benefits of an environment of continuous improvement will include:

a. Increasing the value of City services (increased efficiency, enhancing process effectiveness and/or increased capacity)
b. Leveraging current technology/ integration of current technology/ consideration of automation
c. Identifying opportunities for increased revenue and/or cost savings
d. Proactively addressing any identified control weaknesses

3. **Engagement Performance**

Perform engagements using a risked based approach that identify opportunities for efficiencies, process improvements, automation, cost savings, increased revenue, increased capacity as well as ensuring compliance to applicable policies, procedures, regulations and/or by-laws. Engagements will be performed efficiently and effectively while achieving overall client satisfaction.

a. Engagements include financial, operational, compliance, Value for Money, information systems audits, other reviews, investigations and consulting work
b. Final engagements reports will be clearly conveyed, concise, accurate, timely and relevant
c. Engagements will consider utilization of technology, analytics as well as continuous auditing tools
d. Client post engagement feedback will be obtained and will measure overall satisfaction of the engagement
APPENDIX 6: CRITERIA FOR AUDIT REPORTING

The audit report rating is intended to provide management with an indication of the overall status of internal controls and processes in the audited area. The audit report rating is based on Internal Audit's overall assessment of the significance of issues identified during the audit process, and in conjunction with professional judgement also considers the following:

1. Design and effectiveness of internal controls, processes, procedures, policies, and systems.
2. Compliance with policies, standard operating procedures, and other requirements (i.e. legal, regulatory, accounting, contractual).
3. Quality of the data and information provided by management and related systems.
4. Efficiency of systems, processes and procedures.

| Effective | - Key controls are adequately and appropriately designed, and are operating effectively to support objectives and manage risks.  
- Audit recommendations resulted in only minor enhancements to the effectiveness or efficiency of controls and processes.  
- One or more Priority 3 findings.  
- Insignificant cumulative financial impact when all audit findings have been considered.  
- Audit findings would not be subject to a follow-up by Internal Audit. |
|-----------|----------------------------------------------------------|
| Enhancement Required | - A few key control weaknesses were noted that require enhancements to better support objectives and manage risks.  
- One Priority 2 finding and Priority 3 findings.  
- Priority 3 findings only where the cumulative financial impact is significant.  
- Corrective action and oversight by management is needed.  
- Audit findings could be subject to a follow-up by Internal Audit. |
| Significant Improvement Required | - Numerous key control weaknesses were noted that require significant improvement to support objectives and manage risks.  
- One Priority 1 finding, or more than one Priority 2 findings and Priority 3 findings.  
- Priority 2 and 3 findings only where the cumulative financial impact is significant.  
- Corrective action and oversight by senior management is required.  
- Audit findings will be subject to a follow-up by Internal Audit. |
| Immediate Action Required | - Key controls are either not adequately or appropriately designed and are not operating effectively, or there is an absence of appropriate key controls to support objectives and manage risks.  
- More than one Priority 1 finding, combined with Priority 2 or 3 findings.  
- Regardless of the type of findings, the cumulative financial impact is material to the City's financial statements.  
- Confirmed fraud by management or staff.  
- Corrective action and oversight by Corporate Leadership Team is required immediately.  
- Follow-up of such audit findings by Internal Audit would be of high priority. |
### APPENDIX 7: CRITERIA FOR EVALUATING AUDIT FINDINGS

**Priority 1 (P1)**

**One or more** of the following conditions exist that require **immediate attention of the Corporate Leadership Team**. Corrective actions by senior management must be implemented.

- Financial impact of both actual and potential losses is material.
- Management's actions, or lack thereof, have resulted in the compromise of a key process or control, which requires immediate significant efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks. Failure by management to remedy such deficiencies on a timely basis will result in the City being exposed to immediate risks and/or financial loss.
- One or more of the following conditions is true: i) management failed to identify key risks; ii) management failed to implement processes and controls to mitigate key risks.
- Management's actions, or lack thereof, have resulted in a key initiative to be significantly impacted or delayed, and the financial support for such initiative will likely be compromised.
- Management failed to implement effective control environment or provide adequate oversight, resulting in a negative pervasive impact on the City or potential fraudulent acts by City staff.
- Fraud by management or staff, as defined by the Corporate Fraud Prevention Policy (policy 2.14).

**Priority 2 (P2)**

**One or more** of the following conditions exist that require attention by senior management. Corrective actions by management should be implemented.

- Financial impact of both actual and potential losses is significant.
- Management's actions, or lack thereof, may result in a key process or control to be compromised, which requires considerable efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks.
- Management correctly identified key risks and have implemented processes and controls to mitigate such risks, however, one or more of the following is true: i) the processes and controls are not appropriate or adequate in design; ii) the processes and controls are not operating effectively on a consistent basis.
- Management's actions, or lack thereof, have impacted or delayed a key initiative, and the funding for such initiative may be compromised.
- Management failed to provide effective control environment or oversight on a consistent basis, resulting in a negative impact on the respective division, or other departments.
- Management failed to comply with Council-approved policies, by-laws, regulatory requirements, etc., which may result in penalties.
- Management failed to identify or remedy key control deficiencies that may impact the effectiveness of anti-fraud programs.

**Priority 3 (P3)**

**One or more** of the following conditions exist that require attention by management. Corrective actions by management should be implemented.

- Financial impact of both actual and potential losses is insignificant.
- A non-key process or control if compromised may require some efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks.
- Processes and controls to mitigate risks are in place; however, opportunities exist to further enhance the effectiveness or efficiency of such processes and controls. Management oversight exists to ensure key processes and controls are operating effectively.
- Minimal risk of non-compliance to Council-approved policies, by-laws, regulatory requirements, etc.
- Low impact to the City's strategic or key initiative.
- Low impact to the City's operations.
Date: February 19, 2019

Subject: KPMG Audit Plan for the 2018 Fiscal Year

Contact: Maja Kuzmanov, Accounting Manager

Recommendations:

1. That the report from Maja Kuzmanov, Accounting Manager, Finance, Corporate Services dated February 19, 2019 to Audit Committee meeting of March 5, 2019 re: “KPMG Audit Plan for the 2018 Fiscal Year”, be received and

2. That the Audit Planning Report for the Year Ending December 31st, 2018, prepared by KPMG LLP, Chartered Accountants to the Audit Committee, be received.

Overview:

- Section 296 of the Ontario Municipal Act, 2001 requires the appointment of an auditor licensed under the Public Accounting Act, 2004.
- The City’s Auditor, KPMG LLP, Chartered Accountants, will be performing the statutory audit of The Corporation of the City of Brampton and its Local Boards/Committees, including the City of Brampton Public Library Board and the Downtown Brampton BIA for the fiscal year ended December 31st, 2018.
- The City’s Auditor, KPMG LLP, Chartered Accountants, have prepared the attached Audit Planning Report for the Audit Committee’s Information.
Background:

The *Ontario Municipal Act, 2001* states that:

296 (1) A municipality shall appoint an auditor licensed under the Public Accounting Act, 2004 who is responsible for,

(a) annually auditing the accounts and transactions of the municipality and its local boards and expressing an opinion on the financial statements of these bodies based on the audit.

KPMG LLP, Chartered Accountants were first appointed as the auditors for the Corporation of The City of Brampton and its Local Boards/Committees in 1990. The role of the external auditors is to audit the consolidated financial statements for the Corporation of The City of Brampton and express and independent opinion on these financial statements. The audit is conducted in accordance with Canadian Generally Accepted Auditing Standards. These standards require that the auditors plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluation of the overall financial statement presentation.

In addition, the auditors are also responsible for advising management and City Council of any internal accounting practices, financial controls or operational issues that may be identified during their audit of the City and its Local Boards.

The consolidated financial statements are the responsibility of the management of the City of Brampton and are prepared in accordance with the accounting principles and disclosure requirements of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

Current Situation:

KPMG LLP, Chartered Accountants have prepared the attached Audit Planning Report to the audit committee. The Audit Planning Report provides information to the Audit Committee relating to the activities of KPMG LLP in discharging their audit responsibilities for the fiscal year ending December 31st, 2018.

Of special note for 2018 audit are a number of new accounting standards:

- PS 3210 Assets
- PS 3380 Contractual Rights
- PS 2200 Related Party Disclosures
- PS 3320 Contingent Assets
- PS 3420 Inter-entity Transactions
These standards are not expected to materially impact the City’s 2018 consolidated financial statements.

Corporate Implications:

There are no corporate implications resulting from this report.

Strategic Plan:

This report achieves the Strategic Plan priority of Good Government by ensuring financial accountability and compliance with statutory reporting requirements.

Conclusion:

KPMG LLP will be performing the statutory audit of the City and its Local Boards and Committees including the City of Brampton Public Library Board and the Downtown Brampton BIA for the fiscal year ended December 31, 2018 in accordance with the Accepted Auditing Standards.

Approved by:     Approved by:

David Sutton                                                    James Macintyre
Treasurer                                                         Acting Commissioner, Corporate Services

Appendix:  KPMG Audit Planning Report for the year ended December 31st, 2018

Report authored by: Maja Kuzmanov
The Corporation of The City of Brampton

Audit Planning Report
For the year ended December 31, 2018

Chartered Professional Accountants, Licensed Public Accountants

February, 2019

kpmg.ca/audit
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</tbody>
</table>

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. We will discuss these risks with you during the upcoming meeting. The audit of The Corporation of The City of Brampton’s (the “City”) consolidated financial statements is considered a group audit which includes several components. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

– Implications of new Public Sector Accounting Standards (“PSAS”) standards

See pages 6-8 and Appendix 7

KPMG team

The KPMG team will be led by Kevin Travers and supported by Maria Khoushnood. 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 Audit Committee. See page 16, Appendix 3.

Audit Materiality

Materiality has been determined based on prior year actual revenues. We have reviewed the scope of work for the City. Materiality will be set at lower thresholds where necessary to meet local subsidiary financial statement audit requirements. We have determined group materiality to be $20,733,000 for the year ended December 31, 2018 (2017 - $19,488,000).

See page 4

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

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

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.
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:

<table>
<thead>
<tr>
<th>Materiality determination</th>
<th>Comments</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metrics</td>
<td>Relevant metrics included total revenue, or expenses, and net assets</td>
<td></td>
</tr>
<tr>
<td>Benchmark</td>
<td>Based on total revenue, using prior year actuals as an estimate. This benchmark is consistent with the prior year.</td>
<td>$829,341,000</td>
</tr>
<tr>
<td>Materiality</td>
<td>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 $19,488,000.</td>
<td>$20,733,000</td>
</tr>
<tr>
<td>% of Benchmark</td>
<td>The corresponding percentage for the prior year’s audit was 2.5%.</td>
<td>2.5%</td>
</tr>
<tr>
<td>Performance Materiality</td>
<td>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 $14,616,000.</td>
<td>$15,549,000</td>
</tr>
<tr>
<td>Audit Misstatement Posting Threshold (AMPT)</td>
<td>Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year’s audit was $974,000.</td>
<td>$1,036,600</td>
</tr>
</tbody>
</table>

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.

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

<table>
<thead>
<tr>
<th>Components</th>
<th>Why</th>
<th>Our audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-significant components:</strong> &lt;br&gt;The Brampton Public Library Board; &lt;br&gt;Brampton Downtown Development (“DBBIA”)</td>
<td>Non-significant components; however, these components are required to obtain audited local statutory financial statements under the Municipality Act.</td>
<td>The group audit engagement team, KPMG LLP from the Toronto North office will be providing statutory audit opinions on these respective fiscal year 2018 financial statements.</td>
</tr>
</tbody>
</table>
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 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.

<table>
<thead>
<tr>
<th>Professional requirements</th>
<th>Why</th>
<th>Our audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fraud risk from revenue recognition</td>
<td>This is a presumed fraud risk, which has not been rebutted.</td>
<td>Our audit methodology incorporates the required procedures in professional standards to address this risk.</td>
</tr>
<tr>
<td></td>
<td>The primary risk resides with manual journal entries for revenue transactions not in the normal course of business.</td>
<td>Our audit approach will consist of evaluating the design and implementation of selected relevant controls. We test journal entries that meet specific criteria. This criteria is designed during the planning phase of the audit and is based on areas and/or accounts that are susceptible to manipulation through management override and/or we design search filters that allow us to identify any unusual journal entries.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>As part of our audit approach to address the inherent risk of error in revenue recognition, KPMG substantively tests revenues (both recognized and amounts held as deferred at year end) and recalculates management’s calculation of deferred revenue – obligatory reserve funds through auditing management’s methodology.</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Cash and investments</th>
<th>Our audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Review year-end bank and investment reconciliations and substantive testing and significant reconciling items.</td>
</tr>
<tr>
<td></td>
<td>Substantive test of details over additions and disposals of investments</td>
</tr>
<tr>
<td></td>
<td>Obtain confirmations from third parties</td>
</tr>
<tr>
<td></td>
<td>Review of financial statement note disclosure</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tangible Capital Assets</th>
<th>Our audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Substantive test of details over additions (including contributed tangible capital assets) and disposals</td>
</tr>
<tr>
<td></td>
<td>Review amortization policy and recalculations</td>
</tr>
<tr>
<td></td>
<td>Review construction in progress to ensure amounts are properly transferred to correct capital asset classes and amortization expense commences on a timely basis</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Taxes Receivable and Taxation Revenue</th>
<th>Our audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Substantive approach recalculating tax revenue using approved tax rates and assessment</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deferred Revenue – obligatory reserve funds</th>
<th>Our audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Update our understanding of the activities over the initiation, authorization, processing, recording and reporting</td>
</tr>
<tr>
<td></td>
<td>Review the City-prepared calculation of deferred revenue balance with the responsible individuals</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employee Future Benefits</th>
<th>Our audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reliance on actuaries engaged by the City; update our understanding of the activities over the quality of information used, the assumptions made, the qualifications, competence and objectivity of the preparer of the estimate, and the historical accuracy of the estimates</td>
</tr>
<tr>
<td></td>
<td>Communicate with actuaries and test data provided to the actuaries, if applicable</td>
</tr>
<tr>
<td></td>
<td>Review assumptions used by actuary and management for reasonableness</td>
</tr>
<tr>
<td></td>
<td>Review financial statement disclosures</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses – Salaries and Benefits</th>
<th>Our audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Perform control testing over payroll cycle</td>
</tr>
<tr>
<td></td>
<td>Vouch a sample of employees’ salary and benefit expense to payroll information</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accounts Payable, Accrued Liabilities and Expenses</th>
<th>Our audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Search for unrecorded liabilities</td>
</tr>
</tbody>
</table>
### Other areas of focus

<table>
<thead>
<tr>
<th>Our audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Examine significant accrued liabilities for existence, accuracy and completeness</td>
</tr>
<tr>
<td>2. Perform substantive test of details on selected non-payroll expenditures</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Consolidation</strong></td>
</tr>
<tr>
<td>1. Review operations of and perform audit procedures for the consolidated entities,</td>
</tr>
<tr>
<td>including the Brampton Public Library Board and DBBIA</td>
</tr>
<tr>
<td>2. Review the eliminating entries as prepared by management for accuracy and</td>
</tr>
<tr>
<td>completeness</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Contingencies</strong></td>
</tr>
<tr>
<td>1. Perform a detailed review of Council Meeting minutes</td>
</tr>
<tr>
<td>2. Direct communication with the internal legal counsel (and external as necessary)</td>
</tr>
<tr>
<td>to ensure that all significant contingent liabilities are appropriately disclosed</td>
</tr>
<tr>
<td>and/or recorded</td>
</tr>
<tr>
<td>3. Significant findings review with management during planning and completion stage</td>
</tr>
<tr>
<td>of the audit engagement</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Trust Funds</strong></td>
</tr>
<tr>
<td>1. Direct confirmation of cash and investment year-end balances with relevant third</td>
</tr>
<tr>
<td>parties</td>
</tr>
<tr>
<td>2. Vouching of selected revenue and expense transactions to source documents</td>
</tr>
</tbody>
</table>
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.

<table>
<thead>
<tr>
<th>Area(s) of focus</th>
<th>Planned D&amp;A routines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Journal entry testing</td>
<td>Utilize computer-assisted audit techniques (CAATs) to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing</td>
</tr>
</tbody>
</table>

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

What’s new and effective for 2018?
Highlights of the new auditors’ report include:

<table>
<thead>
<tr>
<th>Change</th>
<th>Applicability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Re-ordering of the auditors’ report including moving opinion to the first section</td>
<td>Listed and non-listed entities</td>
</tr>
<tr>
<td>Expanded descriptions of management’s, those charged with governance and auditors’ responsibilities</td>
<td>Listed and non-listed entities</td>
</tr>
<tr>
<td>Separate section on “Material Uncertainty Related to Going Concern”, if applicable</td>
<td>Listed and non-listed entities</td>
</tr>
<tr>
<td>Separate section on “Other Information” (e.g. MD&amp;A)</td>
<td>Listed and non-listed entities</td>
</tr>
<tr>
<td>Disclosure of name of the engagement partner</td>
<td>Listed entities</td>
</tr>
</tbody>
</table>

Key audit matter reporting today
Key audit matters (KAMs) are those matters that, in the auditors’ professional judgment, were of most significance in the audit. Currently, the reporting of KAMs in the auditors’ report is only applicable when required by law or regulation or when the auditor is engaged to do so.

Key audit matter reporting in the future
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 KAMs) within the auditors’ report. As a result of the U.S. developments, the Accounting and Assurance Standards Board in Canada is deliberating how and when the disclosure of KAMs will be required for listed entities in Canada. It is expected KAM reporting for certain listed entities in Canada will be required starting in 2020.
How we deliver audit quality

CONTINUOUS IMPROVEMENT

- Training
- Quality reviews
- Root cause analysis
- Action

DEPTH OF EXPERIENCE

- Years' experience
- Industry experience
- Continuity of team
- Involvement of specialists

TAILORED APPROACH

- Profound understanding
- Materiality
- Coverage
- Risk-based

INSIGHT

- Data and analytics
- Independent view
- Skepticism and judgment
- Team hours

TWO-WAY COMMUNICATION

- Ongoing dialogue
- No surprises
- Timely reporting
- Current developments
## Highly talented and experienced team

<table>
<thead>
<tr>
<th>Team member</th>
<th>Background / experience</th>
<th>Discussion of role</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Kevin Travers</strong></td>
<td>Kevin has been the lead audit engagement partner for the Corporation of The City of Brampton for many years and in addition to the City, he leads 4 other municipal audits. He is considered an authority on municipal financial reporting within Canada having authored and delivered many presentations / seminars / webinars on financial reporting developments and is also a reviewer for the Canadian Financial Reporting Award as administered by the Government Finance Officers’ Association.</td>
<td>– Kevin will lead our audit for The Corporation of the City of Brampton and be responsible for the quality and timeliness of everything we do.  &lt;br&gt;– He will often be onsite with the team and will always be available and accessible to you.</td>
</tr>
<tr>
<td><strong>Maria Khoushnood</strong></td>
<td>Maria has been involved with public sector and municipal audits for the last 10 years, and co-led the team in 2017 as the audit manager. She has in-depth knowledge of the City’s transactions and audit requirements.</td>
<td>– Maria will work very closely with Kevin on all aspects of our audit for the City.  &lt;br&gt;– She will be on site and directly oversee and manage our audit field team and work closely with your management team.</td>
</tr>
</tbody>
</table>
KPMG’s commitment to quality starts with leadership and with the tone at the top that drives the pursuit of audit quality at a global level and in every KPMG member firm and audit engagement. The KPMG network includes more than 162,000 professionals around the world of which 2,500+ are audit professionals in Canada.

Our annual Global People Survey provides our people a chance to communicate how they feel about working at KPMG.

**The people I work for demonstrate honest and ethical behaviour.**

- **2017**: KPMG Canada: 85, National Audit: 80, KPMG Global: 80
- **2016**: KPMG Canada: 88, National Audit: 84, KPMG Global: 84

**KPMG’s commitment to quality is apparent in what we do on a day-to-day basis**

- **2017**: KPMG Canada: 80, National Audit: 78, KPMG Global: 78

**I believe I could report unethical practices without negative impact on me.**

- **2017**: KPMG Canada: 80, National Audit: 75, KPMG Global: 75
- **2016**: KPMG Canada: 80, National Audit: 75, KPMG Global: 75
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 City 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 other large municipalities. This experience ensures that we are well positioned to identify and discuss observations and insights that are important to you; and,

— Current development updates – we have provided tailored information on current developments in PSAS
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:

Planning meeting with management – **October 2018**
Commence year end planning – **November 2018**

October 2018

Audit strategy discussions based on debrief of audit

Strategy

December 2018

Interim fieldwork

November 2018

Ongoing communication with Board/Audit Committee and Senior Management

March/April 2019

Final fieldwork and reporting

May 2019

Issuance of audit report on consolidated financial statements – **May 2019**

Final fieldwork - **March 2019**
Closing meeting - **April 2019**
Audit findings discussion - **May 2019**

Debrief

Statutory / Other Reporting
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 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 provided by management.

- **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
  
  - What are your views about fraud risks in the entity?
  
  - How do those charged with governance exercise effective oversight of management’s processes for identifying and responding to the risk of fraud in the entity and internal controls management has established to mitigate these fraud risks?
  
  - Are you aware of or have you identified any instances of actual, suspected, or alleged 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?
  
  - Is the entity in compliance with laws and regulations?
  
  - Has the entity entered into any significant unusual transactions?

- **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

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 companies 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: Audit trends

KPMG understands the wide range of challenges and evolving trends that you face as an audit committee of the City. We also understand that sometimes keeping up with critical issues as they emerge can be difficult.

As your auditors, it is incumbent upon us to provide you with any information that will help you further strengthen corporate governance, enhance your oversight and add greater value within your organization.

As such, KPMG’s Audit Committee Institute (ACI) provides information, resources and opportunities for you to share knowledge with your peers. First, you are welcome to attend our Audit Committee Roundtable sessions, which are held in major cities across the country. In addition, you will also benefit from our monthly article series (Audit Point of View) as well as thought leadership and insights on the most pressing audit committee agenda items.

More information on all of these can easily be found at www.kpmg.ca/audit.

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

<table>
<thead>
<tr>
<th>Thought Leadership</th>
<th>Overview</th>
<th>Links</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit Trends</strong></td>
<td>With a range of provocative data, insight and opinion gleaned from KPMG professionals and The Conference Board of Canada survey of Audit Committees and CFOs, Audit Trends examines seven key issues addressing corporate readiness, preparedness and priority in a volatile business environment.</td>
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<td><strong>The Blockchain shift will be seismic</strong></td>
<td>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.</td>
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[Link to report]
[Link to article]
Appendix 6: KPMG’s Cyber Security Protocol

This summary is intended to provide management and Audit Committee members with some insight into KPMG’s strategies and procedures regarding our cyber defence.

KPMG Global

KPMG Global provides managed security services for member firms which includes 24x7 monitoring and alerting services to identify potential attacks on our environment. We use a series of centrally managed firewalls among our network of member firms to identify and address potential attacks to member firms and to prevent attacks from spreading between member firms. This approach was in place during the Wanna Cry outbreak and was a critical element in our successful defence against that incident.

KPMG Global has also implemented enhanced email protection to address malware and attacks through email and we have implemented automated vulnerability detection services. This service scans equipment that is exposed to the Internet and identifies known vulnerabilities on a real-time basis. “Good housekeeping” is a central tenet of our approach and we continue to focus on known vulnerabilities and patching.

KPMG Global believes the cloud represents a secure environment when appropriately configured and monitored as a platform to deliver services. Our approach to secure the cloud includes deploying full-time, dedicated security and privacy resources, integrating the cloud platform into our managed security services to promote “good housekeeping,” and deploying a continuous monitoring plan for each of the cloud platforms that we deploy to member firms and to our clients.

KPMG Global has invested heavily in enhancing the security of our environment, evidenced by the introduction of our Global Security Operations Centre, managed services and other enhancements to our cyber defence.

KPMG Canada Approach

– KPMG Canada does not currently use Office 365 or Cloud based email.
– Cloud environments provide robust security when properly configured, with proper password management.
– The Canadian firm’s email servers are hosted in Canada and controlled and managed by KPMG Canada.
– In compliance with our global security controls, we enforce strong passwords that need to be renewed at regular intervals.
– We also maintain a specific IT security platform for the maintenance and management of privileged accounts.
– KPMG’s Information Security Program is built on a comprehensive framework of policies, standards, and processes based on ISO 27001:2013.
– KPMG’s security requirements are set out in Global Information Security Policies and Standards (GISP).
– The Canadian firm undergoes an internal audit every year to ensure compliance to key security controls in the GISP.
– Every three years, the Canadian firm goes through a Compliance Review conducted by a team from non-Canadian member firms.
Appendix 7: Current developments

Please visit the Audit Committee Institute / 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 City:

<table>
<thead>
<tr>
<th>Standard</th>
<th>Summary and implications</th>
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<tr>
<td>PS 3210 Assets</td>
<td>This standard provides a definition of assets and further expands that definition as it relates to control.</td>
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<td>Assets are defined as follows:</td>
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<td>− 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.</td>
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<td>− The public sector entity can control the economic resource and access to the future economic benefits.</td>
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<td></td>
<td>− The transaction or event giving rise to the public sector entity's control has already occurred.</td>
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<td></td>
<td>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 sector entity.</td>
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<td></td>
<td>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City’s December 31, 2018 year-end).</td>
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<td><strong>This standard is not expected to materially impact the City’s 2018 consolidated financial statements.</strong></td>
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<tr>
<td>PS 3380 Contractual Rights</td>
<td>This standard defines contractual rights to future assets and revenue.</td>
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<td>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:</td>
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<td>(a) contractual rights to revenue that are abnormal in relation to the financial position or usual business operations; and</td>
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<td></td>
<td>(b) contractual rights that will govern the level of certain type of revenue for a considerable period into the future.</td>
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<tr>
<td></td>
<td>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City’s December 31, 2018 year end).</td>
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<tr>
<td></td>
<td><strong>This standard is not expected to materially impact the City’s 2018 consolidated financial statements.</strong></td>
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PS 2200 Related Party Disclosures

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.

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. 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.

This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City’s December 31, 2018 year end).

This standard is not expected to materially impact the City’s 2018 consolidated financial statements.

PS 3320 Contingent Assets

This standard defines contingent assets and the disclosure requirement. Contingent assets have two basic characteristics:

(a) an existing condition or situation that is unresolved at the financial statement date; and
(b) an expected future event that will resolve the uncertainty as to whether an asset exists.

Information about a public sector entity’s contingent assets should be disclosed in the notes or schedules to the financial statements and should include descriptions about the nature, extent and basis of the estimate.

This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City’s December 31, 2018 year end).

This standard is not expected to materially impact the City’s 2018 consolidated financial statements.

PS 3420 Inter-entity Transactions

This standard relates to the measurement of related party transactions and includes a decision tree to support the standard. Transactions are recorded a carrying amounts with the exception of the following:

- 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 value fair.
- Cost allocation – use exchange amount

This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City’s December 31, 2018 year end)

This standard is not expected to materially impact the City’s 2018 consolidated financial statements.
<table>
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<tr>
<th>Standard</th>
<th>Description</th>
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<td>PS 3430 Restructuring Transactions</td>
<td>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 responsibility. The standard requires that assets and liabilities are to be measured at their carrying amount. It also prescribes financial statement presentation and disclosure requirements. This standard is effective for fiscal periods beginning on or after April 1, 2018 (the City’s December 31, 2019 year end).</td>
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<tr>
<td>PS 3450 Financial Instruments</td>
<td>A standard has been issued establishing standards 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, 2021 (the City’s December 31, 2022 year end). The effective date was extended from April 1, 2019. 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.</td>
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<tr>
<td>Revised Standard PS 2601 Foreign Currency Translation</td>
<td>A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency. 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. This standard will require exchange gains and losses arising prior to settlement are recognized in a new statement of remeasurement gains and losses.</td>
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<tr>
<td>PS 3280 Asset Retirement Obligations</td>
<td>A standard has been issued establishing standards on how to account for and report a liability for asset retirement obligations. The standard will require the City to record a liability when a legal obligation associated with the retirement of a tangible capital asset exists. The costs associated with the asset retirement increase the carrying amount of the related tangible capital asset and would be expensed in a rational and systematic manner. The standard is effective for fiscal periods beginning on or after April 1, 2021 (the City’s December 31, 2022 year-end). Earlier adoption is permitted.</td>
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| PS 3400 Revenue | A standard has been issued establishing standards which delineates revenue as either exchange transactions or unilateral transactions and the appropriate revenue recognition timing under each type.  

Exchange transactions are present where the transaction gives rise to one or more performance obligations on the part of the recipient. If no performance obligations are present, it would be described as unilateral.  

The standard is effective for fiscal periods beginning on or after April 1, 2022 (the City’s December 31, 2023 year-end). Earlier adoption is permitted. |
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