Tuesday, June 11, 2019
9:30 AM. – Regular Meeting

Council Chambers
4th Floor, City Hall

Council 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

Citizen Members:
Iqbal Ali
Rishi Jain
Abid Zaman

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

Tammi Jackson, Legislative Coordinator
Telephone (905) 874-3829, TTY (905) 874-2130, cityclerksoffice@brampton.ca

Note: Meeting information is also available in alternate formats, upon request.

Note: Any difficulty accessing meeting rooms, buildings, elevators, etc. please contact security at 905-874-2111
1. **Approval of Agenda**

2. **Declaration 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.

   (6.2)

4. **Delegations/Presentations**

4.1. Delegation from Mr. Kevin Travers, Partner, KPMG LLP Chartered Accountants, re: *2018 Audited Consolidated Financial Statements for the City of Brampton.*

   (See item 6.1)

4.2. Presentation by F. Velji, Director, Office of Internal Audit, re: **Audit Data Analytics**

4.3. Presentation by F. Velji, Director, Office of Internal Audit, re: **Education and Awareness Program**

5. **Reports – Internal Audit**

5.1. Report from F. Velji, Director, Office of Internal Audit, dated May 16, 2019, re: **Payroll Services Audit Report**

   To be received

5.2. Report from F. Velji, Director, Office of Internal Audit, dated January 16, 2019, re: **Construction Audit Report – Countryside Drive Road Widening Project**

   To be received
5.3. Report from F. Velji, Director, Office of Internal Audit, dated April 24, 2019, re: **Status of Management Action Plans – March 31, 2019**

To be received

5.4. Report from F. Velji, Director, Office of Internal Audit, dated May 15, 2019, re: **Update to the Internal Audit Workplan - 2019**

To be received

5.5. Report from F. Velji, Director, Office of Internal Audit, dated May 21, 2019, re: **Corporate Fraud Prevention Hotline Update**

To be received

6. **Reports – Finance**

6.1. Report from M. Kuzmanov, Manager of Accounting, Corporate Services, date May 21, 2019, re: **2018 Audited Consolidated Financial Statements for the City of Brampton**

(See item 4.1)

To be received

* 6.2. Report from M. Kuzmanov, Manager of Accounting, Corporate Services, dated May 27, 2019, re: **Audit Appointment Contract Extension**

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**

10.1. Litigation or potential litigation, including matters before administrative tribunals, affecting the municipality or local board; and, the security of the property of the municipality or local board

10.2. The security of the property of the municipality or local board

10.3. The security of the property of the municipality or local board

11. **Adjournment**

   Next Meeting – Tuesday, September 10, 2019
AUDIT DATA ANALYTICS

MEETING THE CHALLENGE
DIGITAL TRANSFORMATION IN THE CITY

Driven by a growing & diverse city

- Respond to residents’ needs
- Service delivery and resource management

Enhanced management information

- Open data
- New sources
- Broader range of information
THE CHALLENGE OF DIGITIZATION AND AUTOMATION

• Introduces new business risk
• Potential for issues to develop quickly
• New untested processes
• Large amounts of data
• Accelerated change may limit oversight
• Traditional audit methods are not enough
MEETING THE CHALLENGE

Data & technology centric audit approach

New skills and new ways of thinking

New collaborations – DI&IT is key to success
AUDIT ANALYTICS AT THE CITY – THE PAST

PRE 2018 – AD HOC

- Computer aided audit techniques have been used in the past
- Analytics tools not readily available or standardized
- No formal analytics process
- Success dependent on individual skills and initiative
LAYING THE FOUNDATION - 2018

• Hired analytics subject matter expert
• Data analytics added to the Internal Audit Manual
• Analytics now considered in every audit
• Standardized analytic tools
• Data provided to audit on request and for one time use
THREE YEAR PLAN

2019 – FORMALIZING
• Establish protocols for obtaining data
• Develop skills and competencies

2020 – INTEGRATING
• Data sources readily available
• Continuous auditing
• Automation

2021+ – OPTIMIZING
• Seamless data integration
• Statistical and predictive analytics
• Establish AI capabilities
### 2019 Objectives - Formalizing the Program

<table>
<thead>
<tr>
<th>Objective</th>
<th>Responsible</th>
<th>Schedule</th>
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</thead>
<tbody>
<tr>
<td>Audit Committee Presentation</td>
<td>Office of Internal Audit</td>
<td>June 2019</td>
</tr>
<tr>
<td>Establish Audit Analytics Working Group</td>
<td>Office of Internal Audit</td>
<td>Q2 2019</td>
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<td></td>
<td>Digital Innovation and IT</td>
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<tr>
<td>Establish Audit Analytics Environment</td>
<td>Audit Analytics Working Group</td>
<td>Q3 2019</td>
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<tr>
<td>Establish Protocol for Obtaining Data</td>
<td>Audit Analytics Working Group</td>
<td>Q3 2019</td>
</tr>
<tr>
<td>Working Model for Direct Data Access</td>
<td>Audit Analytics Working Group</td>
<td>Q4 2019</td>
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<tr>
<td>Skills and Competency Plan</td>
<td>Office of Internal Audit</td>
<td>Q4 2019</td>
</tr>
<tr>
<td>Plan Review and Adjustments for 2020</td>
<td>Office of Internal Audit</td>
<td>Q4 2019</td>
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THANK YOU
MOTION FOR CONSIDERATION

That the presentation by F. Velji, Director, Office of Internal Audit, to the Audit Committee Meeting of June 11, 2019 re: Audit Data Analytics, be received.
Education and Awareness Program
How This Started
What Have We Done?

2017
- United Way Events
- Annual Report
- Quarterly Updates with Commissioners

2018
- City of Brampton and United Way Events
- Annual Report -expanded
- Quarterly Updates with CLT/SLT members
- Community Events
- Began some social media
- Created and refreshed Internal Audit’s page on brampton.ca
“...The auditors really explained their mandate and the approach they were taking – it felt more like assistance than a critique. I’m not really creative, but I might call them the Audit Avengers as they are looking to correct any difficulties or gaps in our processes and assist in improving our business overall.” D.B- Planning & Development Services
May 2019

Internal Audit Awareness Month - May 2019

- Posted materials on the Internal Portal
- Conducted a survey for City staff
- Social media posts #Brampton #internalaudit #iiaawareness2019
- Used the IIA’s logo in our email signatures
SURVEY

We wanted to find out what City staff REALLY thought about Internal Audit…
SURVEY RESULTS
"When I hear that Internal Audit is coming…"

- I don't understand what Internal Audit does: 31.1%
- I'm excited for change: 48.9%
- I get worried: 20%
"I would gladly welcome an audit in my area"
What Did We Learn?

- 84% of respondents would gladly welcome an audit in their area, even though 51% worry or don’t know about Internal Audit.

- We are encouraged that the majority of respondents would welcome an audit.

- HOWEVER, we need to focus our attention on the 51% that worry or don’t know what Internal Audit does.
Next Steps

- Staff workshops
- More City of Brampton events
- More community events
- Social media strategy
- Create materials, presentations, and articles
Thank You!

Any questions?

You can find me at:

@bramptonaudit
Foruzan.Velji@brampton.ca

More on the Office of Internal Audit at:

@bramptonauditor
www.brampton.ca/EN/City-Hall/Office-Internal-Audit/Pages/Welcome.aspx
Executive Summary:

The 2019 Internal Audit Work Plan included an audit of the Payroll Services. The payroll function was last audited in 2014 and all recommendations were implemented prior to the start of the 2019 audit.

Payroll Services is responsible for ensuring that the processing of employees’ pay is accurate, timely and complete. It is not responsible for ensuring that the underlying data, such as employee data, hours worked and leaves taken, is input into the system accurately and on a timely basis.

Overall Results:

The audit did not identify any deficiencies in controls in the processes in Payroll Services. However, Payroll Services performs a significant amount of work to compensate for ineffective processes for data input for employee information and for recording and inputting of time and attendance information. The recommendations in this report will reduce the inefficiencies and provide better value for money for both Payroll Services and supporting functions.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Recommendations</th>
<th>Audit Rating</th>
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<tbody>
<tr>
<td>Decentralized Ownership of employee data</td>
<td>Centralize the ownership and inputting of all employee data in Human Resources (HR).</td>
<td>P2</td>
</tr>
<tr>
<td>Awareness of accountability for time entry</td>
<td>Payroll Services should track operating units’ error rates for time and attendance input data. For operating units with high error rates, communicate with operating unit owners and work with them to reduce their error rates.</td>
<td>P2</td>
</tr>
<tr>
<td>Vacation/lieu balances</td>
<td>Move ownership of treatment of vacation and leave entitlements and balances back to HR and automate the calculations in PeopleSoft HCM.</td>
<td>P2</td>
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<tr>
<td>KPI's and scorecards</td>
<td>Continue to improve the performance of Payroll Services by implementing a scorecard with KPI's that drive performance improvements.</td>
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Background:

Payroll Services is responsible for the processing of a payroll that has high volumes, both in transactions and in the number of employees joining and leaving the payroll, and with complex pay, benefits, and deduction structures. Payroll Services relies on information that is input through two other processes:

- Employee Data Entry into PeopleSoft Human Capital Management system (also known as HCM or HRMS); and,
- Time and Absence Reporting for each employee for each pay period, which is both a manual tracking process and a manual input into HCM.

Payroll Services produces each of the 390 pay cycles on time.

![Payroll Statistics Image](image-url)

*Note: Payroll statistics provided by the Finance Division. The Office of Internal Audit did not validate this information.*
Salary, wages and benefits are $413 million in the 2019 budget, which accounts for 58.3% of the total expense of $709 million for the City of Brampton. The workforce fluctuates throughout the year with the on-boarding and off-boarding of temporary and seasonal employees. Employees belong to one of fifteen different pay groups, each with different pay structures (hourly, salary), different benefit programs, and vacation structures. The workforce has both non-union and union members. The City has six different collective bargaining agreements for the unionized members of the workforce.

Payroll Services has a staff of eleven full time and two contract employees. Operating units have 211 employees in the role of time entry operators. The time entry component is part of but not the primary role for these employees. The time entry operators are responsible for inputting the roughly 8,000,000 hours reported by employees throughout a year into the HCM system. In addition, the HR department has several employees engaged in entering employee data into HCM when employees join, leave, or have changes in their employment information.

Audit Scope and Objectives:

The objective of this engagement was to assess the effectiveness and efficiency of the payroll processes. This included assessing whether the controls to manage the risks in the payroll processes are adequately and appropriately designed and operating effectively for the period January 1 to December 31, 2018. It also included assessing the efficiency with which the payroll process is performed and to make recommendations for improvement where appropriate.

The audit included a review of the following processes and testing to validate the controls and efficiencies of the processes listed:

- Bi-weekly payroll processing
- Reconciliation processes for bank and G/L
- Disbursements to third parties (OMERS, CRA, Manulife, unions, etc.)
- Vacation and lieu balances process

The audit included a review of the level of efficiency inherent in the current payroll process. This included looking at the level of manual interventions that are required to produce payroll; the efficiency of controls identified (in addition to the effectiveness); and, collecting data related to efficiency.

NOT included in the scope of the audit were the following:

- Time and Attendance at operational units
- The T4 and T4A process
- The Record of Employment process
- The preparation of the Public Sector Salary Disclosure List
Findings and Recommendations:

**Finding #1: Decentralized Ownership of Employee Data That Supports the Payroll Processing**

Employee data, such as name, address, telephone number, SIN, tax info, bank account info, benefit information, pension information, union information, etc. is input into HCM. HCM is an integrated system that houses all the employee information and is used to process payroll. The two functions, Human Resources and Payroll Services, both use the system. Human Resources uses it to manage the employee’s employment with the City. Employee information is first entered when employees join the organization, changes are input into HCM when employees are promoted, change their address or have other life events that need to be tracked, and when employees leave the City. Payroll Services uses a component of HCM to calculate the pay for an employee based on information in HCM.

Data entry of employee information is spread out over four departments: HR Talent Acquisition, HR Client Services, HR Benefits & Compensation, and Payroll Services. This has several consequences:

- There are approximately seventeen activities required to input one employee’s information into HCM.
- There are four manual data entry points where errors could potentially occur.
- The Director, Human Resources is the data owner and granting access to HCM is managed by four different delegates, to selected components of the system and individual delegates only check their own staff’s access.
- There is not a single accountable owner responsible for the accuracy and completeness of employee data.
- Staff in one department often need to check if information input by staff in another department has been completed before they can input their component. This results in re-work and double checking.
- Information about one employee is maintained in three to four different paper-based employee files, with records retention requirements that are different depending on the information being maintained (for example, OMERS pension information has to be retained for 75 years).

The Employee Data Change form, which captures each event for an employee, is currently being automated and the project is in pilot mode. This automation, at this point in time, does not integrate into HCM and will require manual input of information into HCM.

Information collected through engaging with payroll staff showed that some of the errors that are being caught and corrected by Payroll Services are as a result of data entry errors in HCM. The information collected also showed that payroll staff are fielding calls from employees who are inquiring about different areas ranging from a request to correct an error from a time entry operator prior to the payroll processing, to questions about HR related issues, OMERS related enquiries, Record of
Employment forms (ROE’s), leaves, etc. The responses from payroll staff showed that, on average, staff are fielding between one to ten calls a day with three people averaging between one to five calls a day.

**Recommendations:**

1. All data entry into HCM for employees is centralized in Human Resources.

2. The data entry, once completed, should be reviewed by a different HR staff member to check for accuracy and completeness. HR should consider the use of a checklist to ensure accuracy and completeness, both for data entry and for employee file retention.

**Management’s Response:**
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<thead>
<tr>
<th>Rec. #</th>
<th>Management Action</th>
<th>Person Responsible</th>
<th>Target Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 and 2</td>
<td>Management agrees with the recommendations in principle, related to centralizing the data entry of all employee information in HR.</td>
<td>Director of Human Resources</td>
<td>Q2, 2020</td>
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</tbody>
</table>

In 2015, a re-organization occurred in HR resulting in a significant change to the functional section which managed and supported employee data management in HCM. This section had seven complements which were all reallocated/repurposed to other sections within HR and IT and thus resulting in a decentralized approach for employee data management as an aftereffect.

Management will review and assess the current employee data management process and the feasibility of having all data entry for employees being centralized in HR. The new Director of HR will also have the opportunity to review all current HR processes and make recommendations and changes as deemed appropriate.

Although currently there is no consolidated HR checklist in place to ensure accuracy and completeness for both data entry and for the employee file retention, HR will review and establish such a consolidated checklist including controls for verification of all entered data and having a different HR staff (within the recommended centralized HR function) perform such data integrity checks.

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**Finding #2: Awareness of Accountability for Time and Attendance Data Entry**

The accountability and responsibility for the accuracy, completeness, and validity of time recorded in the HCM system rests with operating units. Payroll Services is accountable and responsible for accurately processing the information input by the operating units in a timely manner.

Payroll Services carries out seven control checks on data entered into HCM by the time entry operators in the operating units. These checks often result in payroll staff following up with the time entry operator to validate information. The time entry
process at the operating unit level also has at least four checks for accuracy as well as two approval signatures.

Information collected through engaging with payroll staff showed that the majority of the errors payroll staff are correcting result from errors in data entry in operating units, despite operating units signing off on data entry results as being accurate, complete and valid. Payroll staff is spending the equivalent of one FTE time per year on catching and fixing errors.

The current Time and Attendance System, which relies heavily on manual time keeping and complicated input processes, is scheduled to be replaced with an automated system that will provide employee scheduling; time capture; absence compliance; absence requests; and, reporting and analytics. The new system is anticipated to be in place by 2021. The benefits anticipated by the new system include greater efficiency through employee and manager self-service and workflow; reduced time in Payroll Services spent analyzing and correcting errors; and, improved accuracy and consistency for capture of direct capital labour costs.

The new system will place the responsibility for the accuracy, completeness, and validity of time entry back with the employees and their supervisors. Currently, Payroll Services carries part of this responsibility by carrying out a multitude of checks.

Until the new system is in place, improvements can be made in the error rates occurring by identifying which operating units are prone to higher error rates and working with the operating units to identify root causes of the errors and providing additional training for identified units and time entry operators. Doing so will also contribute to the change that is needed for the move to the new system. Training has been provided by Payroll Services. However, training for time and attendance should be aligned with Human Resources, as the custodian of policies that set out the entitlements and working hours.

**Recommendations:**

1. Payroll Services tracks error rates for the time entry process, by pay group and department, to identify which departments/units require further awareness and skill training.

2. Error statistics are shared with relevant department heads, comparing them to overall rates.

3. Additional awareness and training is provided by Human Resources to relevant departments/units to reduce error rates. The training can be offered as part of the Talent & Learning Management System (TLMS).

**Management’s Response:**
Finding #3: Vacation and Leave Balances Calculation

Vacation and leave entitlements are set out in HR policies and collective bargaining agreements. The offer letters for new employees, and any written notifications of changes to their employment (promotions, moves, etc.), set out their entitlements. Each employee belongs to one of the 15 pay groups that are set up in HCM. Positions are created in HCM and each position has the vacation and leave entitlements specified according to the pay group and the position. When an employee is “linked” or matched with the position and the pay group, the vacation and leave entitlements are attached. The process for linking an employee is decentralized within HR:

- For employees who are hired into existing positions, the position, with all the relevant information will already be in HCM.
  - If the employee is full-time, the linking is done by Talent Acquisition.
If the employee is part-time, then the linking is done by HR Client Services.

- If this is a new position, it is created by HR Benefits & Compensation and the linking is then done as set out above.
- If it is a new appointment, i.e. an employee who is on contract moving to a full-time role, the linking is done by HR Client Services.

When an employee joins partway through the year, the entitlement needs to be pro-rated for the remainder of the year. The responsibility for the pro-rating calculation is currently with Payroll Services. The pro-rating is part of the employee’s employment agreement. HR policies and collective bargaining agreements are managed by HR, including the pro-rating and the policy around the usage of vacation and leave entitlements in a calendar year.

For every new employee that joins, or for employees who move positions, the pro-rating calculation for that employee’s vacation and leave entitlement is manually performed by Payroll staff and then input into HCM.

HCM also allows for negative vacation/lieu bank balances. The Payroll staff will check for negative balances on each payroll run and when a negative balance is found will manually adjust the negative balance by reducing the employee’s next year’s vacation and leave bank by the same number of hours.

Payroll Services is carrying out a function, the pro-rating calculations, that is part of the employee data input process. In addition, both the manual calculations of the pro-rating and the manual control for adjusting negative vacation and leave bank balances can be automated within HCM, reducing staff effort and eliminate the risk of inconsistent calculations or errors.

**Recommendations:**

1. Re-align the accountability for all decisions regarding vacation/lieu entitlements, pro-rating, and banks from Payroll Services to HR.

2. HR to work with IT to embed the pro-rating formulas for the pay groups into HCM, eliminating the need for manual calculation and inputting.

3. HR to decide on treatment of negative vacation and leave balances and work with IT to create a formula in HCM that automatically performs the treatment.

**Management’s Response:**
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<tr>
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<th>Management Action</th>
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<tbody>
<tr>
<td>1</td>
<td>Management agrees with the recommendation. Management will align the possible implementation of this recommendation along with the earlier recommendation to centralize the inputting of all employee data in HR.</td>
<td>Director of Human Resources</td>
<td>Q2, 2020</td>
</tr>
<tr>
<td>2</td>
<td>Management agrees with the recommendation in principle. With the upcoming implementation of the automated Time and Attendance System, it is management’s current understanding that the new system will have the built-in capability for pro-rating vacation and leave balances for employees joining partway through the year, thus not requiring any manual effort or intervention by either HR or Payroll Services. Management will perform an assessment of the incremental effort and cost involved to automate the pro-rating calculation within the existing HCM platform before the full implementation of the new system.</td>
<td>Director of Human Resources</td>
<td>Q2, 2020</td>
</tr>
<tr>
<td>3</td>
<td>Management agrees with the recommendation in principle. With the upcoming implementation of the automated Time and Attendance System, it is management’s current understanding that the new system will have the built-in capability for appropriately treating negative vacation and leave bank balances, thus not requiring any manual effort or intervention by either HR or Payroll Services. Management will perform an assessment of the incremental effort and cost involved to automate this adjustment within the existing HCM platform before the full implementation of the new system.</td>
<td>Director of Human Resources</td>
<td>Q2, 2020</td>
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</table>
Finding #4: Use of KPIs to Track Performance and Address Root Causes

KPIs are useful to track performance against internal goals or external benchmarks. In addition, KPIs can be used to identify root causes of recurring problems to eliminate re-work. KPIs are also useful to showcase areas where improvements are occurring.

Payroll Services has started on the path to identifying KPIs. Overtime has come down over the last year through efforts by the Payroll manager to identify underlying root causes for delays in processing payroll. Longer term plans include building a balanced scorecard.

Until this work has been completed, Payroll Services would benefit from tracking error rates, especially those occurring in the Time and Attendance entry process, and working with units with high error rates. The automation of Time and Attendance process will eliminate the need for Payroll Services to carry out the checks, but until the project is completed, high error rates are still impacting the efficiency of Payroll Services as they are correcting errors made by operating units.

There is benchmarking information available about payroll functions at various municipalities. However, the information only uses two indicators, both of which are very sensitive to the staffing mix, the number of unions and the complexity of the Collective Bargaining Agreements, the processes and systems, policies and practices, and whether payroll is centralized or decentralized. These are not disclosed in the benchmarking report so a comparison would not be meaningful. It would be beneficial to liaise with similar municipalities to find comparable benchmarks to include in a scorecard.

Recommendation:

1. Consider working with similar municipalities to create payroll benchmarks that are meaningful to help drive further improvements.

2. When building the KPIs and scorecards identify KPI’s that provide a broad perspective over all aspects of payroll processing.

Management’s Response:
Other Matters:

Maturity of Payroll Services

A comparison of best practices for payroll functions shows that the following practices are currently in place:

- The human resources system is integrated with the payroll system (PeopleSoft Human Capital Management system)
- Only one payroll system is used
- Payroll processing is centralized
- Direct deposit is the most common method of distributing payroll – 99%
- All payrolls are bi-weekly

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<tbody>
<tr>
<td>1</td>
<td>Management agrees with the recommendation. Due to the variability of available benchmarking information, the impact on the comparability of the information due to several factors as noted in this report, and the confidential nature of the underlying data, it is a challenge to create appropriate cross-municipal benchmarks. However, management will continue to reach out to similar municipalities and assess the ability to create appropriate and meaningful external benchmarks.</td>
<td>Manager Payroll Services / Senior Manager, Accounting Services &amp; Deputy Treasurer</td>
<td>Q2, 2020</td>
</tr>
<tr>
<td>2</td>
<td>Management agrees with the recommendation and has already implemented several KPIs to track performance against internal goals starting in 2018. Management will continue to develop and refine these KPIs to cover all aspects of payroll processing.</td>
<td>Manager Payroll Services / Senior Manager, Accounting Services &amp; Deputy Treasurer</td>
<td>Q4, 2019</td>
</tr>
</tbody>
</table>
In addition, the following practices are planned/under way for implementation over the next two years:

- An automated time and attendance system that will link to the payroll system
- A balanced scorecard and KPI's for use by Payroll Services
- Finalizing the updating of the procedures for payroll

Figure 1 is a standard payroll maturity model. The Payroll Services activities from 2017 to 2019 were assessed as having moved from “Ad hoc” to “Managed.”

The model assesses five elements of a payroll function. These are shown in Figure 2. The green chevrons in Figure 2 indicate Payroll Services’ current maturity in each of the five elements. Maturity is an evolution that happens in stages. Not all five elements are at the same level of maturity at a given point in time, nor can they all be moved forward at the same time due to resources and budgetary constraints. Introducing too much change in a process can set the maturity level back. Detailed information on the stages of maturity and the five elements is included in Appendix C.
Conclusion:

The recommendations in this audit report will further support the evolution of Payroll Services at the City towards being fully at “Managed” and into “Standardized”.

Internal Audit thanks the staff of Payroll Services, Human Resources, Finance, and Digital Innovation and Information Technology for their cooperation in the completion of this audit.

Appendices:

Appendix A: Criteria for Audit Report Rating

Appendix B: Criteria for Evaluating Audit Findings

Appendix C: Details of the Payroll Maturity Model
## Appendix A: Criteria for Audit Report Rating

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 B: 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.
## Appendix C: Details of the Payroll Maturity Model

<table>
<thead>
<tr>
<th>BMI Element/ Capability Maturity Continuum Step</th>
<th>People</th>
<th>Processes</th>
<th>Technology Systems and Data</th>
<th>Monitoring</th>
<th>Organization</th>
</tr>
</thead>
</table>
| **Initial (ad hoc)** (Motivate people to overcome problems and “just get the job done”) | • Job descriptions are not defined.  
• Job responsibilities are not well delineated.  
• Payroll staff are not trained or developed. | • Payroll processes are not defined.  
• Payroll processing is reactive to problems that occur, both due to internal and upstream process failures.  
• Payroll processing has many work-around steps that perpetuate the firefighting mode. | • HR, payroll and Time Management systems are all separate requiring manual inputs leading to high number of errors requiring correction.  
• Data integrity cannot be relied upon, leading to many manual checks in the process.  
• Data owners are not assigned.  
• Data access is not well controlled. | • No performance metrics related to payroll processes.  
• No reporting of performance, either within the payroll group, to management of the payroll function, or within the larger organization. | • Payroll processing is not centralized within the organization  
• Operating departments and support functions (like HR) do not take responsibility for the accuracy, completeness, and validity of the information they submit to payroll for processing. |
| **Managed (build disciplined work unit management to stabilize work and control commitments)** | • Staff have defined responsibilities.  
• Job descriptions are beginning to be documented.  
• Staff training needs have been identified and staff training has started. | • Payroll becomes a repeatable process with reduced rework.  
• Payroll processes are stabilized and are produced on time.  
• Root cause investigation of work-around steps has resulted in solutions that reduce the use of overtime to produce payroll. | • HR and payroll system are integrated.  
• Data integrity can be relied upon.  
• A change management process for system changes is in place.  
• Data access is controlled but a single data owner is not assigned for the system. | • KPI’s are developed to maintain costs and timeliness.  
• Reporting of KPI’s within the Payroll Group and Immediate Manager | • Payroll is centralized within the organization  
• Operating departments and support functions (like HR) are being held accountable for the accuracy, completeness, and validity of the information they submit to payroll for processing. |
| **Standardized (develop standard processes, measures and training for function)** | • All roles have current job descriptions.  
• All staff have training needs and development plans in place and participate in training.  
• New staff have an orientation program to get integrated into the payroll team. | • Defined and documented payroll processes are in place with standard procedures.  
• Ineffective upstream processes (usually employee input process and the time and attendance process) are being addressed. | • HR and payroll system are integrated.  
• Further integration is being pursued to eliminate manual processes.  
• The HR and payroll systems is updated regularly to reflect changes in collective bargaining agreements, other policies and regulations, limiting or eliminating the need for manual calculations and/or inputs. | • A scorecard with KPI’s that include but go beyond cost and timeliness is in place.  
• Upstream KPI’s are communicated to other process owners (such as HR and operational time entry functions)  
• Scorecard is communicated beyond the immediate management of Payroll | • Operating departments and support functions (like HR) take full responsibility for the accuracy, completeness, and validity of the information they submit to payroll for processing. |
| **Optimized and Innovative (A predictable process that undergoes continuous improvements to meet business goals)** | • Payroll staff complement is optimized for current and anticipated future demands of the department.  
• Processes produce predictable results.  
• Processes are assessed on an ongoing basis for additional improvements and innovations. | • Full integration between HR, Payroll, and Time and Attendance systems.  
• Clear data ownership of HR system, Payroll system and Time and Attendance system.  
• Minimal or zero manual interventions to produce a payroll.  
• Exception reports and flags are built into the system. | • A balanced scorecard is used to manage and reward performance of payroll staff and others involved in the upstream payroll processes. | • Operating departments and support functions (like HR) are active participants in the continuous improvement process to improve the quality and process to submit information to payroll for processing. |
Date: January 16, 2019
Subject: Construction Audit Report – Countryside Drive Road Widening Project
Contact: Foruzan Velji, Director, Office of Internal Audit, 905-874-2215, Foruzan.Velji@brampton.ca

Executive Summary:

The 2018 Internal Audit Work Plan included an audit of the Capital Works’ project to widen Countryside Drive Road. This project was started in 2014 and completed in 2017 at a cost of about $20 million.

Capital Works ensures that roads and the accompanying infrastructure are constructed and maintained in a cost effective manner and with the appropriate level of quality. Capital Works projects are included in the capital budget for the City.

Two similar audits were conducted by Internal Audit in the last four years: the Kennedy Road widening in 2015 and the Road Resurfacing Program in 2018. Capital Works has made significant progress in implementing previous audit recommendations and continues to adopt best practices.

Overall Results:

Internal controls supporting the contingency calculation methodology and contract administration management require improvement. Specifically, the following opportunities for improvement were identified:

<table>
<thead>
<tr>
<th>Topic</th>
<th>Findings &amp; Recommendations</th>
<th>Audit Rating</th>
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<tbody>
<tr>
<td>Contingency Calculation and Disclosure</td>
<td>Establish guidelines for calculating, documenting, approving and reviewing contingency calculations.</td>
<td>P2</td>
</tr>
<tr>
<td>Contract Administration Procedures</td>
<td>Update the Contract Administration Procedures: - Increase documentation requirements for change orders</td>
<td>P2</td>
</tr>
</tbody>
</table>
- Add a verification requirement for invoices
- Maintain issues logs
- Implementation of a Quality Assurance / Quality Control Plan

Create Monthly Summary Reporting including KPI's for use by senior management.

Background:

The City of Brampton Capital Works started a project in 2014 to widen Countryside Drive from Airport Road to 500 meters east of Goreway Drive. The project’s scope included increasing the number of lanes and relocating storm water management system as well as the utility infrastructure along the corridor.

Two contracts were signed following the City’s tendering process, one for Construction and other for Contract Administration and Inspection. As with all Capital Works projects, a third party was used to perform the independent quality assurance testing of various construction materials for this project.

At the time staff was directed to proceed with tendering the project by Council, the approvals from the Ministry of Natural Resources (“MNR”) and the Toronto Region Conservation Authority (“TRCA”) had not yet been received.

The work started on September 15, 2014 and was completed on July 5, 2017 (five days after its scheduled completion of June 30, 2017). Total project costs were $20,265,790.55 (plus HST) and the project was completed within budget.

Audit Scope and Objectives:

The period of this audit covers the project’s timeline from September 2014 to July 5, 2017.

The audit commenced in October 2018 and work was completed by November 2018.

The objectives of this audit were to determine whether:

- The project was effectively designed with tender quantities and prices being reflective of the actual scope of work.
- Contractor activities were in compliance with key contract terms and conditions and applicable By-laws and regulations.
- Contractor liability insurance, performance bond and warranties were adequate and were able to reduce the City’s exposure during or after the contract period.
- Change orders issued during the contract period were reasonable, approved
and documented in accordance with corporate requirements.

- Management oversight over the Contract administration activities by the Contract Administrator was effective.
- Contractor payments made were approved and adequately supported in accordance with contract requirements.
- Current practices are aligned with industry best practices.

The scope of the audit included the activities by:

- Capital Works
- The Contract Administrator
- The Contractor

NOT included in the scope of the audit were the following:

- Review of engineering designs and surveys.
- Any environmental assessment, permits or land acquisition.
- Review and assessment of Purchasing policies and procedures.

Findings and Recommendations:

**Finding #1: No Documented Guidelines for the Calculation of the Contingency**

A contingency of 15% based on guidelines for construction industry from the American Association of Cost Engineers (AACE) would be expected for a project of this complexity. Appropriate review and approval of the contingency amount along with contingency oversight throughout the project’s life would also be expected.

The contingency on this project was set at $4 million (25% contingency), significantly higher than the recommended guidelines. No documentation was found to support the calculations used to determine final contingency amount. Management indicated that the reason for the higher contingency was that at the time of tender, MNR and TRCA approvals were not yet received, yet Council directed staff to proceed. Additional specifications of both materials and quantities would be needed for the project, subsequent to those approvals. The revisions resulting from the approvals by MNR and TRCA were completed in May 2015, after the contract had commenced.

There is no formal review or approval process for contingencies, especially those that exceed accepted industry guidelines. In addition, the use of the contingency throughout the project’s life and after the completion was not reviewed.

The contingency amount is disclosed to bidders in the tender document for transparency and to ensure that the bonds and other securities that the City obtains
to protect itself from non-performance is sufficient to cover the full project cost. The “Other Matters” section suggests that management consider benchmarking this practice.

It is important that the contingency calculation is as accurate as possible and has gone through a review process. Bidders will price in risk if the contingency is set too low and the City will not be able to correct for this through the tendering process. If the contingency is set too high, there is a risk of the contractor believing that they have access to these funds. A contractor may attempt to put claims through the change order process that would be the contractor’s responsibility to repair, rectify, or provide as part of the contract.

Recommendations:

1. Contingency calculation guidelines should be implemented for all Capital Works projects.

2. Contingency calculations for projects should be documented, reviewed, and approved prior to a project going out for tender.

3. At the end of a project, a review of the use of the contingency should take place to increase the accuracy of contingency planning and management.

4. Periodic reviews of the amounts used in a project’s contingency should be done during the life of a project to track against budget and funding set aside for the project. This helps to check if the project will come in over or under its pre-determined contingency.

Management’s Response:
Finding #2: Insufficient Requirements for Information to be Included with Change Orders

The Contract Administrator managed the process of creating change orders by working with the Contractor. Change orders were discussed with City Capital Works staff and approval was required from the City before work could commence and the amounts agreed to could be invoiced.

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<tr>
<th>Rec. #</th>
<th>Action Plan</th>
<th>Person Responsible</th>
<th>Target Date</th>
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<tbody>
<tr>
<td>1.1</td>
<td>Agreed, an SOP will be developed by the Engineering section, which will provide a guideline to calculate the appropriate amount of contingency to include in a capital construction project.</td>
<td>Manager, Engineering</td>
<td>Sept 30, 2019</td>
</tr>
<tr>
<td>1.2</td>
<td>Agreed, staff will document the contingency and the reasons/decisions for the amount if the contingency is higher than the standard 15% as part of the pre-tender estimate going forward for all capital projects.</td>
<td>Manager, Engineering</td>
<td>Complete</td>
</tr>
<tr>
<td>1.3</td>
<td>Agreed, a lessons learned review is now being implemented as part of all completed capital works projects. This meeting includes representation from the Construction, Infrastructure Planning and Engineering teams, and provides the forum where the details of the project, including the contingency amount, can be reviewed and any changes can be applied to future projects.</td>
<td>Manager Engineering &amp; Manager, Construction</td>
<td>Complete</td>
</tr>
<tr>
<td>1.4</td>
<td>Staff have developed a robust Works in Progress (WIP) review twice a year. Public Works &amp; Engineering (PW&amp;E) has gone through this process in 2016/2017 where all the capital projects are reviewed for excess funds to turn back to reserve and additional funds requested to top up existing projects if required. This allows the return or redistribution of uncommitted funds in capital projects as staff are assured that adjustment can be made twice a year.</td>
<td>Director, Capital Works</td>
<td>Complete</td>
</tr>
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</table>
126 change orders were issued and approved throughout the contract for a total value of $3,837,536 – 96% of the contingency amount of $4 million. Detailed information on each of the change orders is expected to be provided to explain the need for the change order.

A sample of ten change orders reviewed had insufficient supporting documentation provided so that it was difficult to assess:

- the justification for the change
- potential cost impact of the change
- potential schedule impact of the change
- details how the additional work will be procured (i.e. through third parties)
- confirmation that formal price validation has been completed (i.e. is pricing in line with market rates and/or those agreed to as part of the original contract price)
- confirmation that the markup percentage is as per the contract or if higher, has been supported by justification for the higher mark-up

Both the contracts with the Contractor and the Contract Administrator, did not set out what constituted appropriate supporting documentation for change orders. When this project was started the Contract Administration Procedure (CAP) was not in effect. The CAP became effective in March 2016, more than halfway through the project.

The 2016 version of the CAP states that “A full justification and back-up must be attached with all the change orders submitted for formal approval by the city.” However, it does not explain what constitutes “full justification and back-up.”

Detailed guidance of the types of documentation required to be attached to a change order submitted for approval ensures that only those changes that fall within the scope of the project, and are valid changes, are approved. A change order log ensures that items are not charged through twice on different change orders and that recurring issues are addressed quickly.

The 2019 draft changes to the CAP addresses this finding.

**Recommendations:**

1. Amend the CAP, clause 4 to include specific details of what is required for “full justification and back-up” to support change orders.
2. Amend the CAP, clause 4 to include the creation and tracking of a Change Order Log so changes that are being made during the life of the project can be tracked and seen. This is in addition to tracking the drawing down of the contingency amount.
3. Management should consider the creation of a contingency management plan for each project that clearly defines what the contingency can be used for. The contingency management plan would also address when it is appropriate to move budget from one line area to another in a contract and how that is to be managed and when a Project Change Notice is required.
Management's Response:

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</table>
| 2.1    | The 2019 revisions to the Contract Administration Procedures (CAP) include additional requirements for Change Orders:  
        - All change orders must include: justification of the change, impact to schedule, additional procurement of material, reason for change in quantity, additional scope of work and mention responsibility for change.  
        - All change orders must specify one of the five reasons: Design Issues, Utility Conflicts, Geo-technical Issues, Additional Scope, and Other(s). | Manager, Construction | Complete |
| 2.2    | The 2019 revisions to the Contract Administration Procedures (CAP) include additional requirements for Change Orders: Change order log sheet must include reason(s) for change orders. | Manager, Construction | Complete |
| 2.3    | See 1.4 | | |

Finding #3: Lack of Evidence of Contract Administrator's Reconciliation of Daily Quantities Used to Invoice

The Contract Administrator keeps track of the daily quantities used at the construction site. These quantities are reconciled to tracking sheets used to invoice the City on a monthly basis. There is no evidence with the invoice package that is approved by City Capital Works staff that this reconciliation has taken place.

All quantities invoiced on one Progress Payment Certificate were checked back to the daily quantities used and to the quantities and prices in the contract and approved change orders. No exceptions were found.

The total amount that a contractor can invoice is limited to the quantities and pricing agreed to in the bid contract and the approved Change Orders. However, it is important to have confidence that the materials and quantities being invoiced were used on the construction site and that the materials were of the appropriate quality.

The invoice should include evidence that the reconciliation to the record of daily quantities used for the project has taken place.
**Recommendation:**

1. Amend the “Progress Payment Certificate” form to include a sign-off from the contract administrator that the reconciliation from the ‘record of daily quantities used’ to the back-up for the payment certificate has taken place.

**Management’s Response:**

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<tbody>
<tr>
<td>3</td>
<td>Agreed. The Progress Payment Certificate will include a sign off from the Contract Administrator to confirm quantities invoiced are reconciled to quantities used on site.</td>
<td>Manager, Construction</td>
<td>July 31, 2019</td>
</tr>
</tbody>
</table>

**Finding #4: Lack of an Issues Log to Assist Vendor Performance Evaluation**

An issues log should be maintained for vendors. A log can assist with managing issues resolution throughout the project and provide information to assist with vendor performance evaluation after the project has ended.

At the time that the contracts were in place for both of these vendors, vendor performance evaluation was not allowed per the Purchasing By-law. With the change in the Purchasing By-law in 2018, current and future vendors will now be evaluated.

Bi-weekly meetings with City Capital Works staff, the Contract Administrator, and the Contractor were being held. An agenda and minutes were issued allowing for tracking and resolution of issues. However, this does not address recurring and systemic issues with a vendor.

Without the requirement to maintain issue logs, issues can remain unresolved for longer than necessary which makes it difficult to identify ongoing issues with a particular vendor, either throughout or at the end of a project.

**Recommendations:**

1. Carry out vendor performance evaluations for all vendors.

2. Maintain issue logs for issues arising with vendors during the life of their contracts.

3. Carry out post-mortem evaluations to identify systemic issues and/or recurring issues with a vendor across several projects.
Management’s Response:

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<tr>
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<th>Action Plan</th>
<th>Person Responsible</th>
<th>Target Date</th>
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<tbody>
<tr>
<td>4.1</td>
<td>At the time that the contracts awarded for both the vendors, vendor performance evaluation was not permitted as per the Purchasing Bylaw. The purchasing bylaw was updated in 2018 with a Vendor Performance Evaluation and the CAP has been updated to require this of the contract administrator. All Capital Works projects have the consultants and contractors subject to evaluations in accordance with the recently updated purchasing bylaw.</td>
<td>Manager, Construction</td>
<td>Completed</td>
</tr>
<tr>
<td>4.2</td>
<td>With the current CAP in place, issue logs are now attached as an attachment to the meeting minutes including who is responsible and when the issue is to be resolved. In the annual review and refresher training for the CAP, this will continue to be enforced.</td>
<td>Manager, Construction</td>
<td>Completed</td>
</tr>
<tr>
<td>4.3</td>
<td>Moving forward, post mortem meetings will be held per the Vendor Performance SOP, and any vendors with systemic / re-occurring issues will be handled per the new Vendor Suspension Administrative Directive</td>
<td>Manager, Construction</td>
<td>Completed</td>
</tr>
</tbody>
</table>

Finding #5: Implementation of a Quality Assessment/Quality Control Plan

A Quality Assurance Testing Plan ensures that adherence to specifications for materials mandated by the Ontario Provincial Standards-Ministry of Transportation, or otherwise required by the City, is met.

An independent third party, contracted by the City, to ensure that the required specifications were met, carried out quality assurance tests. Reports from the third party were sent directly to City staff for review.

An overall plan that sets out which materials require testing during the life of the project allows City staff to ensure that all required tests are carried out and all materials used meet the required specifications.
**Recommendation:**

1. Implement the requirement to have a QA/QC plan for each project.

**Management's Response:**

Management acknowledges that there is currently no requirement for a QA/QC plan from either the Contract Administrator, or Contractor. All quality assurance testing requirements are currently included as part of the OPSS specifications, which makes up the contract specification. This includes what materials are to be tested, what tests are required, and the frequency of the testing, as well as the allowable tolerances. However, management acknowledges that a separate project specific QA plan could be useful for the project team, where one document has all the quality assurance requirements listed in one place and can be used to cross reference results to ensure all testing requirements are met.

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<tr>
<td>5</td>
<td>Management will review best practices and review the merits of having the contractor submit a QC Plan, and/or, have our Contract administrator develop and maintain a QA Plan.</td>
<td>Manager, Engineering &amp; Construction</td>
<td>December 31, 2019</td>
</tr>
</tbody>
</table>

**Finding #6: Monthly Reporting to Senior Management**

One of the audit objectives was to evaluate existing practices against best practices and make recommendations for management to consider.

Monthly reports for each project, and across all projects, using relevant key performance indicators (KPIs) provide regular updates to senior management and can alert the need for early interventions. These monthly reports should be created by contract administrators, whether this function is carried out in-house or through a third party.

The CAP does not specify the frequency of reporting. It states that ‘progress must be monitored on a continual basis ….” Nor does the CAP require that project costs should be tracked, monitored and reported in addition to project Key Performance Indicators (KPIs).

Detailed project reports are maintained by Capital Works staff, including milestones for each project. However, these are too detailed to provide “at a glance” views of projects and the full portfolio of projects. Scorecards that use relevant KPIs with colour coding, such as ‘traffic lights’ or colours that indicate status are useful for senior management updates.
Recommendation:

1. Amend the CAP to include requirements for tracking, monitoring and reporting on projects on a monthly basis. The following information can be included in monthly high-level report:
   - Original budget, budget revisions, current budget
   - Change orders take-up rate of the contingency
   - Actuals to date – invoiced and paid
   - Budget to actual variance
   - Project cash requirements
   - Cost Performance: burn rate of the contingency set aside; other cost indicators where relevant
   - Schedule Performance: milestone achievement; tracking to planned completion
   - Quality Performance: quality test failures; systemic issues on the issue log; vendor performance issues (contractor or contract administrator)

Management’s Response:

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<th>Person Responsible</th>
<th>Target Date</th>
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<tbody>
<tr>
<td>6</td>
<td>Agreed, staff will review and develop a monthly status report for senior management as well as a reporting protocol for all major projects</td>
<td>Director, Capital Works</td>
<td>December 31, 2019</td>
</tr>
</tbody>
</table>

Other Matters:

Health & Safety Monitoring of Contractor

The Contractor’s continued compliance with Health & Safety regulations ensures workers work in a safe environment. The Contractor was required to comply with the Health & Safety Act of Ontario, but there was no requirement, in either the CAP or the contract, for the Contractor to provide the City with a Health & Safety Plan, as there is no evaluation of it in the contract.

This was acknowledged in early 2016 when the Infrastructure Health & Safety Association (IHSA) approached the City to review the merits of mandating its contractors to obtain a Certificate of Recognition (COR). COR is a health and safety management audit system that verifies that the holder is adhering to the legislative requirements for health and safety. After reviewing the merits of this approach, the City is implementing a phased in process that requires all City construction contractors, regardless of contract value, be COR certified by 2021. The City takes the safety of its staff, our residents, and anyone working for the City seriously.
Part of the review of the merits of requiring COR certification resulted in approval by City Council for Public Works & Engineering as a department to become COR certified. A requirement of that program is that staff perform regular job site inspections and document the recognition and rectification of health and safety issues on City property as well as on active job sites. While it is still the responsibility of the Contractor to manage its own site, this regular review is helping to enforce that the City do its part to ensure a safe working environment.

**Benchmarking the Practice of Disclosing the Contingency Amount in Bid Documents**

An informal request for information from other municipalities about the practice of disclosing the contingency amount in bid documents yielded no conclusive answers. Seven municipalities provided summarized information on their practice relating to the disclosure of contingency amounts: three responded that they do not disclose the contingency amount, three responded that they do disclose it, and one responded that the disclosure was dependent upon the Project Manager. There were additional variations within these answers, which demonstrates that this is not a uniform practice. We encourage management to perform more detailed benchmarking and engage the Purchasing Division to review the City’s practices around the disclosure of the contingency amount. When the contingency amount is disclosed, there is a risk that the vendor will assume it has access to these funds.

**Processes that Were Working Well**

Several processes were working well:
- Approvals were within Delegation of Authority levels;
- The Contract Administration Procedures (CAP) were revised in March, 2016 and are mostly aligned with industry practices and the recommendations set out in this report will update the procedures up to include more best practices. The CAP is now reviewed annually and updated when necessary.
- The performance bond process as well as insurance requirements and WSIB adherence all functioned at an acceptable level. The insurance requirement process itself has undergone further improvements since this project to ensure that the appropriate levels of insurance and certifications remain in place.

The Internal Audit team would like to thank the Capital Works team for their cooperation and assistance during this audit.

**Appendices:**

**Appendix A:** Criteria for Audit Report Rating

**Appendix B:** Criteria for Evaluating Audit Findings
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 B: Criteria for Evaluating Audit Findings

<table>
<thead>
<tr>
<th>Priority 1 (P1)</th>
<th>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.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Financial impact of both actual and potential losses is material.</td>
</tr>
<tr>
<td></td>
<td>- 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.</td>
</tr>
<tr>
<td></td>
<td>- 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.</td>
</tr>
<tr>
<td></td>
<td>- 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.</td>
</tr>
<tr>
<td></td>
<td>- 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.</td>
</tr>
<tr>
<td></td>
<td>- Fraud by management or staff, as defined by the Corporate Fraud Prevention Policy (policy 2.14).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Priority 2 (P2)</th>
<th>One or more of the following conditions exist that require attention by senior management. Corrective actions by management should be implemented.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Financial impact of both actual and potential losses is significant.</td>
</tr>
<tr>
<td></td>
<td>- 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.</td>
</tr>
<tr>
<td></td>
<td>- 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.</td>
</tr>
<tr>
<td></td>
<td>- Management's actions, or lack thereof, have impacted or delayed a key initiative, and the funding for such initiative may be compromised.</td>
</tr>
<tr>
<td></td>
<td>- 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.</td>
</tr>
<tr>
<td></td>
<td>- Management failed to comply with Council-approved policies, by-laws, regulatory requirements, etc., which may result in penalties.</td>
</tr>
<tr>
<td></td>
<td>- Management failed to identify or remedy key control deficiencies that may impact the effectiveness of anti-fraud programs.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Priority 3 (P3)</th>
<th>One or more of the following conditions exist that require attention by management. Corrective actions by management should be implemented.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Financial impact of both actual and potential losses is insignificant.</td>
</tr>
<tr>
<td></td>
<td>- A non-key process or control if compromised may require some efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks.</td>
</tr>
<tr>
<td></td>
<td>- 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.</td>
</tr>
<tr>
<td></td>
<td>- Minimal risk of non-compliance to Council-approved policies, by-laws, regulatory requirements, etc.</td>
</tr>
<tr>
<td></td>
<td>- Low impact to the City's strategic or key initiative.</td>
</tr>
<tr>
<td></td>
<td>- Low impact to the City's operations.</td>
</tr>
</tbody>
</table>
Date: April 24, 2019

Subject: Status of Management Action Plans – March 31, 2019

Contact: Foruzan Velji, Director, Office of Internal Audit, 905-874-2215, foruzan.velji@brampton.ca

Recommendations:

1. That the report from Foruzan Velji, Director, Office of Internal Audit, dated April 24, 2019 to the Audit Committee Meeting of June 11, 2019, re: Status of Management Action Plans – March 31, 2019, be received.

Overview:

- As part of the internal audit follow-up process, Departments are required to provide the Office of Internal Audit with an update on the Management Action Plan status and progress of outstanding audit recommendations;

- The objective of this report is for the Office of Internal Audit to inform Audit Committee members on the progress of the implementation of recommendations, as reported by Management;

- The comments reflect the status of the implementation of recommendations due to be completed by or prior to March 31, 2019;

- Since December 2018, 22 audit recommendations were to be implemented by management; a total of twelve recommendations were implemented, of which two were completed in advance of their target completion dates, and 10 have been deferred;

- The Office of Internal Audit may validate results at a subsequent date as part of the follow-up audit process;

- Details concerning the individual recommendations are available upon request.
Background:

In accordance with the requirements of Standard 2500.A1 of the International Standards for the Professional Practice of Internal Auditing, the Office of Internal Audit has established a follow-up process to monitor and ensure that Management Action Plans for audit recommendations have been implemented. This process has been in place since 2006.

For the follow-up process, Departments are required to provide an update to the Office of Internal Audit on the progress of implementing agreed-upon audit recommendations. The Office of Internal Audit reviews the comments submitted by the Department, and where necessary, the Director of Internal Audit will meet with Management to discuss the respective progress and comments. Upon complete implementation of the audit recommendations by Management, Internal Audit will assess whether a follow-up audit is necessary to validate that the implemented processes and procedures are operating effectively. Such follow-up audits are included in Internal Audit’s annual work plan, which is approved by the Audit Committee.

The implementation status updates from Management are reported to the Audit Committee. This report summarizes the statuses of audit recommendations due to be implemented by Management on or prior to March 31, 2019.

Current Situation:

As of March 31, 2019, there were 22 audit recommendations that were due to be implemented by Management on or prior to this date. Twelve were reported as complete by Management and 10 have been deferred. The remaining recommendations identified as “not yet due” have anticipated completion dates over the period 2019-2020 (Appendix 1).

Please refer to Appendix 1 for the details of the recommendations as of March 31, 2019.

Corporate Implications:

Financial Implications:
None

Other Implications:
None
Strategic Plan:

This report achieves the Strategic Plan priority of Good Government through the establishment of an internal audit follow up procedure for the implementation of audit recommendations, which promotes corporate accountability, values, and governance best practice.

Conclusion:

The Office of Internal Audit is committed to continuously collaborating with Management in identifying, reviewing, improving, and updating policies, procedures, and processes on a regular basis, and enhancing efficiencies and process effectiveness.

The Office of Internal Audit encourages Management and staff to continue striving to meet the target completion dates of audit recommendations.

Approved by:

________________________
Foruzan Velji
Director & Chief Audit Executive, Office of Internal Audit

Attachments:

Appendix 1: Audit Recommendations as of March 31, 2019

Report authored by: Sabrina Cook, MA
Coordinator, Research & Administrative Services, Office of Internal Audit
## Appendix 1: Audit Recommendations as of March 31, 2019

<table>
<thead>
<tr>
<th>Audit Report</th>
<th>Rating</th>
<th>Year</th>
<th>Recs</th>
<th>Total Completed</th>
<th>As of March 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transit: PRESTO Revenue</td>
<td>N/A</td>
<td>2016</td>
<td>7</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>Property Tax Revenue</td>
<td>1</td>
<td>2017</td>
<td>5</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Human Resources Salary Administration</td>
<td>2</td>
<td>2017</td>
<td>13</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td>Cash Handling and Revenue-Cassie Campbell Community Centre</td>
<td>3</td>
<td>2017</td>
<td>8</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Employee Expense Reimbursement</td>
<td>4</td>
<td>2017</td>
<td>6</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Library Operations</td>
<td>5</td>
<td>2017</td>
<td>4</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Building Permits</td>
<td>6</td>
<td>2017</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Mayor &amp; Councillor Expenses</td>
<td>N/A</td>
<td>2017</td>
<td>7</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>Review of Logical Access Management</td>
<td>N/A</td>
<td>2018</td>
<td>6</td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td>Building Inspections</td>
<td>7</td>
<td>2018</td>
<td>4</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>By-Law Enforcement/Parking Infractions</td>
<td>8</td>
<td>2018</td>
<td>13</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Fire and Emergency Services</td>
<td>9</td>
<td>2018</td>
<td>14</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Corporate Security</td>
<td>10</td>
<td>2018</td>
<td>14</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Road Resurfacing</td>
<td>11</td>
<td>2018</td>
<td>15</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>IT Service Desk</td>
<td>12</td>
<td>2019</td>
<td>10</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Mobile Phone Management</td>
<td>13</td>
<td>2019</td>
<td>13</td>
<td>-</td>
<td>13</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td>142</td>
<td>70</td>
<td>12</td>
</tr>
</tbody>
</table>

5.3-4
Date: May 15, 2019
Subject: Update to the Internal Audit Workplan-2019
Contact: Foruzan Velji, Director, Office of Internal Audit, 905-874-2215, Foruzan.Velji@brampton.ca

Recommendations:

That the report from Foruzan Velji, Director, Office of Internal Audit, dated May 15, 2019, to the Audit Committee Meeting of June 11, 2019, re: Update to the Internal Audit Work Plan – 2019, be received.

Overview:

- On a regular basis, Internal Audit reviews and updates the work plan as needed based on current information, concerns and discussions with the Leadership Team, issues identified, and risk reviews.

- This report provides Audit Committee with a status update of the Internal Audit Work Plan for 2019.

Background:

Internal Audit is focused on performing an objective assessment of evidence to provide an independent opinion as to the effectiveness and efficiency of a process or system in order to assist management in achieving their business objectives and goals.

The results of audits performed are communicated to the Audit Committee to provide information to assist them in carrying out their governance responsibilities.

The annual Audit work plan will be reviewed on a regular basis and may be adjusted based on any information, issues, or concerns that have been identified. Updates and changes to the Audit work plan will be communicated to the Audit Committee.
Current Situation:

Appendix A reflects the status of the 2019 Audit work plan to date.

One audit, Accounts Payable, has been converted to a consulting engagement as management is in the preliminary stages of an automation project in this area. Three audits have been added to the plan – two Driver Certification Program audits to be performed on behalf of the Ontario Ministry of Transportation (MTO), and a review of the new Council Office support model.

As of the date of this report, four audits have been completed, and nine engagements are currently underway with anticipated completion between September and November 2019.

Any changes to the Audit work plan may require the removal or deferral of a project identified within this report or alternatively, the hiring of an outside auditor to perform the audit. Any changes throughout the year will be communicated to the Audit Committee.

Internal Audit activities will be conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. The specific scope of each project will be determined during the project planning phase.

Corporate Implications:

Financial Implications: N/A

Other Implications: N/A

Strategic Plan:

This report achieves the Strategic Plan priority of Good Government.

Conclusion:

The Internal Audit work plan will be reviewed on a regular basis and updated if needed. Our intention is to keep the Audit work plan agile and flexible, ensuring that identified risks are appropriately addressed. The Audit work plan is designed to add value to the organization and provide the highest standard of professional, independent and timely solutions in partnership with City departments.
Attachments:

Appendix A: Update to the Internal Audit Work Plan 2019

Report authored by:

Foruzan Velji, CPA, CA, CFI, CISA
Director, Office of Internal Audit
### Appendix A: Update to the Internal Audit Workplan 2019

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>STATUS</th>
<th>NOTES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources-Recruitment (2018)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources- Employee Benefits (2018)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources-Salary Administration (2018)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active Directory</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Handling and Revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firewall Rules</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT Disaster Recovery</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transit Operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources-Employee Benefits (Phase 2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rose Theatre Operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract Cleaning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fleet</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td></td>
<td>Converted to Consulting</td>
</tr>
<tr>
<td>Data Centre</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review of Council Office Support Model</td>
<td></td>
<td>Added</td>
</tr>
<tr>
<td>Driver Certification Program (DCP)-Transit</td>
<td></td>
<td>Added</td>
</tr>
<tr>
<td>Driver Certification Program (DCP)-Fleet</td>
<td></td>
<td>Added</td>
</tr>
<tr>
<td><strong>OTHER PROJECTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fraud Awareness Program</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education and Outreach Program</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electronic Working Papers</td>
<td></td>
<td>Added</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Date: May 21, 2019

Subject: Corporate Fraud Prevention Hotline Update

Contact: Foruzan Velji, Director, Office of Internal Audit, 905-874-2215, Foruzan.Velji@brampton.ca

Recommendations:

1. That the report from Foruzan Velji, Director, Office of Internal Audit, dated May 21, 2019, to the Audit Committee Meeting of June 11, 2019, re: Corporate Fraud Prevention Hotline Update, be received.

Overview:

- The Corporate Fraud Prevention Hotline ("Fraud Hotline") was launched on July 4, 2016 for the use of City of Brampton employees.

- Since the launch, the Fraud Hotline has received a total of 25 reports of alleged fraud. Since the last update to Audit Committee on March 19, 2019, 2 reports were received by the Fraud Hotline. Internal Audit conducted investigations of all 12 reports, 5 of which have been closed and 7 of which are open.

- Internal Audit will provide ongoing updates on the status of the Fraud Hotline to the Audit Committee.

Background:

As part of the City of Brampton’s ("the City") commitment to protecting its assets, a Fraud Framework to prevent, detect, and report incidents of fraud, as well as investigate any suspected acts of fraud, was established. On July 4, 2016 the City launched the Corporate Fraud Prevention Hotline, which allows City employees to report alleged incidents of fraud. The Fraud Hotline allows employees to report incidents anonymously and confidentially 24 hours a day, seven days a week. To report an incident of suspected fraud, employees can submit a report through the third-party secure website or over the phone through a third-party dedicated toll-free number.
As a result of low activity related to the Fraud Hotline and the number of new employees joining the City, the Fraud Framework was re-launched in 2018, consisting of the updated Fraud Prevention Policy and the Fraud Hotline. The Fraud Framework complements other existing Policies, which taken together, are intended to support and strengthen the City's commitment to the Corporate Values of courage, trust, compassion, and integrity.

Internal Audit performs its assurance and consulting activities guided by a philosophy of adding value to improve the operations of the City of Brampton. As part of this commitment, Internal Audit has created and maintains an Employee Fraud Awareness Program, providing employees with tools and information and encouraging the use of the Fraud Hotline, if required, so that employees feel empowered to do the right thing to ensure the City's assets are protected.

Current Situation:

Internal Audit updates the Audit Committee on the status of the Fraud Hotline, including statistics on the number and types of reports received. Since the update report was presented at the March 19, 2019 Audit Committee, the Fraud Hotline has received 2 new reports. Currently, there are 7 open reports, and investigations are being conducted by Internal Audit.

The following table provides a summary of all ongoing investigations between January 1 and March 31, 2019:

<table>
<thead>
<tr>
<th>Date Submitted</th>
<th>Report Category</th>
<th>Report Method</th>
<th>Report Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2019</td>
<td>Embezzlement or Fraud</td>
<td>Client transcribed</td>
<td>Ongoing investigation</td>
</tr>
<tr>
<td>March 2019</td>
<td>Manipulation or Falsification of Data, Records, Reports, Contracts</td>
<td>Client transcribed</td>
<td>Ongoing investigation</td>
</tr>
<tr>
<td>December 2017</td>
<td>Theft</td>
<td>Client transcribed</td>
<td>Closed</td>
</tr>
<tr>
<td>March 2018</td>
<td>Embezzlement or Fraud</td>
<td>Web</td>
<td>Investigation complete</td>
</tr>
<tr>
<td>May 2018</td>
<td>Theft</td>
<td>Web</td>
<td>Closed</td>
</tr>
<tr>
<td>May 2018</td>
<td>Theft</td>
<td>Client transcribed</td>
<td>Closed</td>
</tr>
<tr>
<td>May 2018</td>
<td>Theft</td>
<td>Client transcribed</td>
<td>Investigation complete</td>
</tr>
<tr>
<td>May 2018</td>
<td>Theft</td>
<td>Client transcribed</td>
<td>Investigation complete</td>
</tr>
<tr>
<td>September 2018</td>
<td>Embezzlement or Fraud</td>
<td>Web</td>
<td>Closed</td>
</tr>
<tr>
<td>October 2018</td>
<td>Unethical conduct</td>
<td>Hotline</td>
<td>Closed</td>
</tr>
<tr>
<td>November 2018</td>
<td>Non-compliance with Policy or Procedure</td>
<td>Web</td>
<td>Investigation complete</td>
</tr>
</tbody>
</table>
Corporate Implications:

Financial Implications:
The 2019 operating budget approved by Council, includes amounts for a third-party to operate the Corporate Fraud Prevention Hotline.

Other Implications:
None

Strategic Plan:
This report achieves the Strategic Plan priority of Good Government through the support of the Corporate Fraud Prevention Policy and Fraud Hotline which promotes corporate accountability, our Corporate Values and governance best practices.

Conclusion:
The Corporate Fraud Prevention Policy and Hotline enhances and strengthens the City’s governance structure. It reinforces Council’s expectations regarding rules of behavior and emphasizes the values of the City. The Office of Internal Audit will continue to update the Audit Committee on the status of the Fraud Hotline and any ongoing and/or completed fraud investigations.

Approved by:

Foruzan Velji, CPA, CA, CFI, CISA
Director, Office of Internal Audit
Date: May 21, 2019

Subject: 2018 Audited Consolidated Financial Statements for the City of Brampton

Contact: Maja Kuzmanov, Manager of Accounting, Corporate Services
905-874-2259

Recommendations:

THAT the report dated May 21, 2019 from Maja Kuzmanov, Manager of Accounting, Corporate Services Department to the Audit Committee meeting of June 11, 2019, re: 2018 Audited Consolidated Financial Statements for the City of Brampton, be received.

OVERVIEW:

- The 2018 Audited Consolidated Financial Statements from the City Auditor KPMG LLP Chartered Accountants are being presented to the Audit Committee for receipt.
- The consolidated financial statements have been prepared in accordance with the Public Sector Accounting Board (PSAB) reporting standards and fully comply with Generally Accepted Accounting Principles (GAAP).
- These consolidated financial statements reflect the financial position as at December 31, 2018 and the operating results for the year for the City, its Local Boards and Committees of Council including The Brampton Public Library Board and the Downtown Brampton Business Improvement Area.
- The financial reporting standards do not change the City’s budgeting process, how the tax levy is calculated or how funding decisions are made by Council.
- A reconciliation of the operating results for tax levy purposes and PSAB adjusted consolidated financial statements is provided in Schedule A of this report.
- As part of the annual audit, the City Auditor, KPMG LLP Chartered Accountants, conducted a review of Internal Controls and provides an Audit Findings Report to the Audit Committee.
- KPMG LLP did not identify any corrected or uncorrected misstatements.
BACKGROUND

The audit of the 2018 Consolidated Financial Statements by the City Auditor, KPMG LLP Chartered Accountants is complete and the statements are attached to this report. The work KPMG LLP performed is conducted in accordance with Canadian Generally Accepted Auditing Standards (GAAP) and relevant ethical requirements, including those pertaining to independence. The work is also planned and performed to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error.

The 2018 Audited Consolidated Financial Statements for the City of Brampton reflect the financial position as at December 31, 2018 and the results of operations for the year for the City and its Local Boards and Committees of Council. The following Local Boards and Committees of Council which are included in these consolidated financial statements are accountable for the administration of their financial affairs and resources to the City and are owned or controlled by the City:

- The Brampton Public Library Board
- Downtown Brampton Business Improvement Area (DBBIA)

The consolidated financial statements for the 2018 fiscal year have been prepared in compliance with the requirements of the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada as required by the Province of Ontario. The statements are presented to the Audit Committee for review and approval, which are part of the key statutory functions of the Audit Committee.

CURRENT SITUATION

Audit Results

KPMG LLP audited the consolidated financial statements of the City for the fiscal year 2018. These consolidated financial statements are the responsibility of the City's management. The audit resulted in KPMG LLP issuing an unqualified audit opinion, which means that the consolidated financial statements present fairly the financial position and comply with PSAB municipal financial reporting requirements.

Report Summary

The consolidated financial statements presented in this report comprise the following statements:

- Consolidated Statement of Financial Position
- Consolidated Statement of Operations and Accumulated Surplus
- Consolidated Statement of Cash Flows, and
- Consolidated Statement of Change in Net Financial Assets

The consolidated financial statements provide information on the City’s financial position including the value of assets and liabilities, cost of delivering the City’s municipal services and investment in capital projects, financing sources and investing activities.
The City of Brampton’s consolidated financial statements are prepared in accordance with Canadian public sector accounting standards established by the PSAB of the Chartered Professional Accountants of Canada.

Effective January 1, 2018, the City adopted the following standards issued by the PSAB:

i. PS 2200 – Related party disclosures
ii. PS 3420 – Inter-Entity Transactions
iii. PS 3320 – Contingent Assets
iv. PS 3210 – Assets
v. PS 3380 – Contractual Rights

The adoption of these standards has resulted in additional note disclosures where necessary.

The PSAB requires full accrual basis of accounting and financial reporting. This provides for inclusion of certain items such as amortization of tangible capital assets and tangible capital assets contributed to the City through the subdivision assumption process.

The City uses a full accrual basis (PSAB) budgeting methodology. This methodology does not change how the tax levy is calculated, or how funding decisions are made by City Council. The 2018 Audited Consolidated Financial Statements reflects full accrual budget figures for comparison purposes.

Schedule “A” attached shows the 2018 fiscal year tax-based operating results versus that of the PSAB based financial reporting.

**Highlights of 2018 Consolidated Financial Statements:**

**Consolidated Statement of Financial Position**

The Consolidated Statement of Financial Position (balance sheet) has two key components that make up accumulated surplus: net financial assets and non-financial assets (tangible capital assets, inventory and prepaid expenses).

- “Net Financial Assets” is the net of assets (cash, investments, receivables and other assets) minus liabilities (accounts payable, capital lease obligation, deferred revenues and employee benefits and other liabilities) generated from the City’s operations, activities of capital projects and Reserves and Reserve Funds. This value serves as a key indicator of the City’s ability to manage its cash resources to meet its financial obligations. The City’s 2018 net financial assets had a balance of $411.0 million (2017: $429.2 million), a decrease of $18.2 million from 2017. A decrease in Net Financial Assets is primarily attributable to an increase in the employee benefit liability and accounts payable balances.
“Non-Financial Assets” primarily consists of the City’s investment in tangible capital assets of $3.80 billion (2017: $3.69 billion). The increase in tangible capital assets is attributable to the combination of assets constructed by the City and brought into service and assets contributed to the City through the subdivision assumption process.

The accumulated surplus (retained earnings) as at December 31, 2018 is $4.22 billion (2017: $4.12 billion), an increase of $92.9 million.

Key items to note:

- **Decrease in cash and short-term investment balance**
  - The Bank of Canada had two rate hikes in 2017 (each 25 basis points) after almost two years of no rate change. There have been three hikes in 2018 (Jan, Jul and Oct). Driven by a favorable market condition in the bond market in 2018, the City increased the cash and short-term investment allocation to longer-term investments to improve the overall earnings while ensuring a prudent amount of liquidity was maintained to meet the cash flow requirements for operating and capital needs. This has caused the decrease of year-end cash and GIC balances and increase of bond portfolio balances. Result was a decrease from $348.8 million in 2017 to $268.9 million in 2018.

- **Increase in taxes receivable**
  - From $48.7 million in 2017 to $56.9 million in 2018 was attributable to the increase in tax accounts that are in the first year of arrears. Although several factors have potentially impacted the increase in first year arrears in 2018, it is likely that the real estate market highs experienced in the spring/summer of 2017 and rising interest rates have primarily contributed to the increase.

- **City Hall West Tower Capital Lease Obligation**
  - In 2014, the City entered into a capital lease arrangement for City Hall West Tower. The lease value has been recorded in the City’s consolidated financial statements as a tangible capital asset (TCA) with a corresponding capital lease obligation with remaining balance of $86.9 million as at December 31, 2018.
Deferred Revenue - Obligatory Reserve Funds

- Any unspent development charges (DCs), gas tax funds and other obligatory reserves at the end of the fiscal year are recorded as deferred revenue. Deferred revenue decreased by $6.2 million from $306.7 in 2017 to $300.5 in 2018 caused by timing of project spending.

Employee Benefits and Other Liabilities

- Employee benefits and other liabilities increased from $77.1 million in 2017 to $85.7 million in 2018 mainly due to increase in actuarial valuations for vested sick leave, WSIB liability and early retirement liability. $2.7 million was due to increase in sick leave liability as a result of establishment of Health Care Spending Account for Fire.

Net Book Value of Tangible Capital Assets

- An increase of $107.8 million due to the infrastructure assets assumed from developers through subdivision agreements, construction of the Sandalwood Works Yard, purchase of transit buses and road construction activities.

The Net Financial Assets position continues to be in a strong, positive position, which signifies that the City is fully able to meet its financial obligations.

Consolidated Statement of Operations and Accumulated Surplus

The Consolidated Statement of Operations and Accumulated Surplus (income statement) presents the sources and uses of City’s operating financial resources recognized in the reporting period.

Accumulated Surplus represents the City’s equity (equivalent to retained earnings of a private business). 90% of the City’s Accumulated Surplus represents the City’s investment (net book value) in tangible capital assets required to deliver municipal services. The remainder of the Accumulated Surplus consists of funds committed for capital projects, reserves and reserve funds. Accumulated Surplus is therefore not available to be used to moderate the annual tax levy since it would require selling City assets that are used to deliver municipal services.

Revenues:

Total revenues in 2018 were $44.0 million higher than 2017 increasing from $829.3 to $873.3 million. Major factors contributing to this increase include:

- The higher number of subdivisions assumed during 2018 over 2017 from developers resulted in a $18.4 million increase in the Developer contributed tangible capital assets.
$30.6 million increase in property taxation as a result of assessment growth and budgetary increases. The majority of the growth is realized from new construction, particularly residential, and new plans of subdivision. Also contributing to the increase is the increased supplementary assessment received from MPAC.

Increase in Transit revenues associated with 14% ridership growth.

Expenses:

Total operating expenses in 2018 were $61.6 million higher than 2017, increasing from $718.8 million to $780.4 million. Included in this is $8.5 million increase in amortization (depreciation) expense representing the value of tangible capital assets that were consumed during the year. The amortization expense increased due to the $247.0 million in new tangible capital assets that were added during 2018. Amortization expenses are non-cash in nature, meaning that there was no outlay of cash resources related to the expense.

Following are key items driving the operating expense variance from 2017 to 2018:

- $9 million increase in post-employment benefits and other liabilities
- $4 million increase in fuel costs
- Increases from the operating and maintenance of the City’s growing infrastructure investment as well as continued growth in transit service

Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows reports changes in cash and cash equivalents. It provides information on how the City uses its cash for operating, investing and financing activities. As at December 31, 2018 the City’s cash and cash equivalents had a balance of $268.9 million (2017: $348.8 million). The decrease of $79.9 million was mainly driven by cash outlays related to the acquisition of tangible capital assets.

Consolidated Statement of Change in Net Financial Assets

This statement explains the change in the City’s Accumulated Surplus during the year. It is intended to provide the reader of the consolidated financial statements with detailed information on non-financial assets including the acquisition of tangible capital assets and the use of the assets through the value of amortization. This statement also provides reporting of other non-financial asset items that impact the change in annual surplus and the change in net financial assets.

Audit Findings Report

Each year as part of the annual audit, the City Auditor, KPMG LLP Chartered Accountants, conducts a review of Internal Controls and provides an Audit Findings Report to the Audit Committee with recommendations for improvement and accompanying management responses.
The 2018 Audit Findings Report from KPMG\textsubscript{LLP} Chartered Accountants is attached to this report. KPMG\textsubscript{LLP} did not identify any corrected or uncorrected misstatements.

\textbf{Publication}

The 2018 Consolidated Financial Statements will be made public and posted on the City’s website.

\textbf{Corporate Implications:}

There are no corporate implications resulting from this report.

\textbf{Strategic Plan:}

This report achieves the Strategic Plan priority of Good Government by practicing proactive, effective and responsible management of finances, policies and service delivery and promotes transparency in the reporting of the City’s financial affairs.

\textbf{Conclusion:}

KPMG\textsubscript{LLP} audited the consolidated financial statements of the City for the fiscal year 2018. These consolidated financial statements are the responsibility of the City’s management. The audit resulted in KPMG\textsubscript{LLP} issuing an unqualified audit opinion, which means that the consolidated financial statements present fairly the financial position and comply with PSAB municipal financial reporting requirements.

KPMG\textsubscript{LLP} Chartered Accountants also conducted a review of Internal Controls and provides an Audit Findings Report to the Audit Committee with recommendations for improvement. KPMG\textsubscript{LLP} did not identify any corrected or uncorrected misstatements.

\begin{flushright}
David Sutton, Treasurer \hspace{2cm} Joe Pittari, Acting Chief Administrative Officer
\end{flushright}

\textbf{Attachments:}

- Audit Findings Report (for the year ended December 31, 2018)
- Management Representation Letter
- Schedule A - 2018 Municipal Surplus Reconciliations, Tax Levy Purpose vs Financial Statements

\textit{Authored by: Maja Kuzmanov, Manager of Accounting}
The Corporation of
The City of Brampton

Audit Findings Report
for the year ended
December 31, 2018

Chartered Professional Accountants, Licensed
Public Accountants

April 15, 2019

kpmg.ca/audit
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Executive summary

Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the consolidated financial statements of the City of Brampton (the “City”) as at and for the year ended December 31, 2018.

This Audit Findings Report builds on the Audit Plan we presented to the Audit Committee.

Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

Finalizing the audit

As of the date of this report, we have completed the audit of the consolidated financial statements and received evidence of approval of the financial statements form the City’s Chief Administrative Officer (individual delegated authority to approve the financial statements).

Our audit report is dated the date of approval of the financial statements by the City’s Chief Administrative Officer, May 2, 2019.
Executive summary

Adjustments and differences
For the City’s consolidated financial statements, we did not identify differences that remain uncorrected. We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Significant accounting policies and practices
The City adopted 5 new public sector accounting standards in the current year: See page 9 for considerations regarding the implementation of the new standards in the current year financial statements.

Financial statement presentation and disclosure
The presentation and disclosure of the consolidated financial statements are, in all material respects, in accordance with the City’s relevant financial reporting framework.

Control and other observations
We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

Accounting estimates
Overall, we are satisfied with the reasonability of accounting estimates.
The areas of estimates relate to the carrying value of tangible capital assets, provisions for accrued liabilities, obligations related to employee future benefits, self-insurance liability and provisions for liabilities arising from legal claims.
Audit risks and results

We highlight our significant findings in respect of significant financial reporting risks as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified.

**Significant financial reporting risks**

**Employee Future Benefits**

**Our response and significant findings**

- In 2017, management engaged an external actuarial consultant to undertake a valuation of the City’s non-pension retirement benefits and accumulated sick leave liability as at December 31, 2016. A valuation update was performed to determine the liability as reported in the City’s 2018 consolidated financial statements. The employee future benefit liabilities as at December 31, 2018 are outlined in Note 7 to the consolidated financial statements.
- We reviewed the actuarial valuation report and assumptions applied in the valuation, and performed trend analysis on the liability.
- The Canadian auditing standards require that we review the qualifications, competence and objectivity of the preparer of the estimate.
- We performed substantive testing to validate accuracy of the census data submitted by the City to the actuary to perform the valuation.
- Based on the analysis and testing performed, we did not identify any discrepancies.
Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

<table>
<thead>
<tr>
<th>Other area of focus</th>
<th>Our response and significant findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contingencies</td>
<td>- The Chartered Professional Accountants Handbook PS3300 Contingent Liabilities requires that the City recognize a liability when “it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and the amount can be reasonably estimated.”</td>
</tr>
<tr>
<td></td>
<td>- At any point in time, the City is subject to a number of matters which could potentially result in the determination of a contingent liability as defined above, including, but not limited to matters such as collectability of certain accounts receivable, legal claims, etc.</td>
</tr>
<tr>
<td></td>
<td>- We reviewed the City’s assessments of contingent liabilities and the process employed to develop and record the related estimated liabilities. Where applicable, KPMG discussed with the individuals responsible for the process and is satisfied that the methodology used is rational, consistent with the approach taken in prior years and has been appropriately reviewed.</td>
</tr>
<tr>
<td></td>
<td>- As these items are resolved, it is possible that the final amounts recorded for these liabilities may change, however the amounts currently recorded represent management’s best estimates of exposure given the information presently available.</td>
</tr>
<tr>
<td></td>
<td>- We did not note any issues in City’s assessment of contingent liabilities and amount of related liabilities that were recorded and reported for the year-ended December 31, 2018.</td>
</tr>
</tbody>
</table>
As previously communicated in our Audit Planning Report, we have utilized technology to enhance the quality and effectiveness of the audit.

### Areas of the audit where Technology and D&A routines were used

<table>
<thead>
<tr>
<th>Tool</th>
<th>Our results and insights</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPMG Clara Client Collaboration</td>
<td>We have a new tool available for requesting and receiving all the audit requests. This tool is web-based and would allow the finance team to upload responses to our specific requests via link on the web portal. This technology is currently being used for a number of our other clients with great success and improvement in the amount of time spent dealing with audit requests. KPMG discussed this tool with the City and will be working with the City to use this tool for next year’s audit.</td>
</tr>
<tr>
<td>KPMG Clara Advanced Capabilities</td>
<td>KPMG will be working with the City to obtain data in a way that can be used for our new and advanced Clara audit tool. We held discussions with the Finance team this year and will be working with the City over the next few months to set things up for next year.</td>
</tr>
<tr>
<td>Journal Entry Analysis</td>
<td>Using technology in the audit to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing.</td>
</tr>
<tr>
<td>Data &amp; Analytics Routines</td>
<td>We utilized computer assisted audit techniques to perform testing on amortization expense recorded for the fiscal year based on each individual asset in the asset sub-ledger. This consists of recalculating the expected amortization expense for each asset based on its useful life and number of days in use during the year, and comparing to the total amortization expense recorded in the G/L. We also used CAATs to identify individual assets from the asset sub-ledger that have a greater accumulated amortization than original cost balance.</td>
</tr>
<tr>
<td>Data Extraction &amp; Analytics Tools</td>
<td>We utilized data and analytics in the audit to evaluate the completeness of the journal entry population through a roll-forward of selected cash, accounts receivable, tangible capital assets, and revenue and reserve GL accounts. This consists of a summation of all automated and manual journal entries posted in the selected GL accounts during the fiscal year and comparison of the calculated amounts to the account balances as at and for the year ended December 31, 2018 as reported by management.</td>
</tr>
</tbody>
</table>
Significant accounting policies and practices

Initial selections – adoption of new standards

The following new significant accounting policies and practices were selected and applied during the period as per the requirement of Public Sector Accounting Standards. These accounting policies were applied prospectively for the consolidated financial statements for the year ended December 31, 2018.

Details

Beginning in fiscal 2018, the City is now required to adopt the following new public sector accounting standards (PSAS):

- **PS 2200 – Related Party Disclosures**
  - This standard defines related parties and requires disclosure of material transactions occurring between related parties at a value that is different from that which would have been arrived at if the parties were unrelated.
  - The City has internal policies over procurement and conduct that address conflicts of interest and transactions with individuals or parties at non-arms’ length. We held discussions with management who informed us that there were no material related party transactions that were not at fair value during the year. Our findings from our review of Council and committee meeting minutes were consistent in this regard. At the completion of the audit, we will obtain from management a signed representation letter indicating that there were no related parties or transactions not identified to us or disclosed in the consolidated financial statements.

- **PS 3420 – Inter-Entity Transactions**
  - These are transactions occurring between commonly controlled entities. There are no inter-entity transactions to consider as there are no commonly-controlled entities to the City.

- **PS 3380 – Contractual Rights**
  - Contractual rights, which are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future, must be disclosed and described. As at December 31, 2018, there were a number of contracts for funding support, shared services, and leases. The aggregate amounts for each of these types of contracts are disclosed in note 17 to the consolidated financial statements.
  - For a sample of contracts, we verified the maximum amount available to the City, ensured that amounts are to be earned in future periods, and recalculated the future portions by deducting actual revenues earned to date on the contracts.
Initial selections – adoption of new standards

The following new significant accounting policies and practices were selected and applied during the period as per the requirement of Public Sector Accounting Standards. These accounting policies were applied prospectively for the consolidated financial statements for the year ended December 31, 2018.

Details

- **PS 3320 – Contingent Assets**
  - Contingent assets, which exist when an unresolved existing condition exists and an expected future event will resolve that uncertainty as to whether an asset exists, must be disclosed. Management has considered a number of circumstances, including litigation where the City is the plaintiff and situations with the potential for recoveries. Management has not identified any contingent assets, which is supported by the City Solicitor. No disclosures are required.

- **PS 3210 – Assets**
  - Items meeting the expanded definition of assets must be recorded as assets in the statement of financial position. The City has recorded all such assets. This standard does not have a significant impact on the consolidated financial statements.
Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

Professional standards require that we request of management and the audit committee that all identified adjustments or differences be corrected. We have already made this request of management.

Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the consolidated financial statements.

Uncorrected differences

We did not identify differences that remain uncorrected.
Current developments and audit trends

<table>
<thead>
<tr>
<th>Title</th>
<th>Details</th>
<th>Link</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Sector Update - connection series</strong></td>
<td>Public Sector Accounting Standards are evolving – Get a comprehensive update on the latest developments from our PSAB professionals. Learn about current changes to the standards, active projects and exposure drafts, and other items.</td>
<td>Contact your KPMG team representative to sign up for these webinars.</td>
</tr>
</tbody>
</table>

Our discussions with you, our audit opinion and what KPMG is seeing in the marketplace—both from an audit and industry perspective—indicate the following is specific information that will be of particular interest to you. We would, of course, be happy to further discuss this information with you at your convenience.

<table>
<thead>
<tr>
<th>Thought Leadership</th>
<th>Overview</th>
<th>Links</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accelerate</strong></td>
<td>Accelerate is a KPMG trends report and video series that includes the perspective of subject matter leaders from across KPMG in Canada on seven key issues impacting organizations today that are disrupting the audit committee mandate.</td>
<td>Link to report</td>
</tr>
<tr>
<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>
<td>Link to report</td>
</tr>
<tr>
<td><strong>Audit Quality 2017</strong></td>
<td>Learn about KPMG's ongoing commitment to continuous audit quality improvement. We are investing in new innovative technologies and building strategic alliances with leading technology companies that will have a transformative impact on the auditing process and profession. How do we seek to make an impact on society through the work that we do?</td>
<td>Link to report</td>
</tr>
<tr>
<td><strong>Cyber defense in depth</strong></td>
<td>High walls alone won't defend the castle Assume that you have been compromised and work on what needs to be done to address it.</td>
<td>Link to report</td>
</tr>
</tbody>
</table>
## Current developments

### Public Sector Accounting Standards

<table>
<thead>
<tr>
<th>Standard</th>
<th>Summary and implications</th>
</tr>
</thead>
</table>
| **Asset Retirement Obligations** | A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2021.  
   - The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs would be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area.  
   - The ARO standard would require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). The amount of the initial liability would be added to the historical cost of the asset and amortized over its useful life.  
   - As a result of the new standard, the public sector entity would have to:  
     • consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset;  
     • carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements;  
     • begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues. |
| **Revenue** | A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2022.  
   - The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement.  
   - The standard notes that in the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.  
   - The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue. |
<table>
<thead>
<tr>
<th>Standard</th>
<th>Summary and implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Instruments and Foreign Currency Translation</td>
<td>New accounting standards, PS3450 <em>Financial Instruments</em>, PS2601 <em>Foreign Currency Translation</em>, PS1201 <em>Financial Statement Presentation</em> and PS3041 <em>Portfolio Investments</em> have been approved by PSAB and are effective for years commencing on or after April 1, 2021.</td>
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<tr>
<td></td>
<td>- Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the government’s choice and this choice must be made on initial recognition of the financial instrument and is irrevocable.</td>
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<tr>
<td></td>
<td>- Hedge accounting is not permitted.</td>
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<tr>
<td></td>
<td>- A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations.</td>
</tr>
<tr>
<td></td>
<td>- Based on stakeholder feedback received, PSAB is considering certain scope amendments to PS 3450 <em>Financial Instruments</em>. An exposure draft with the amendments is expected to be issued in December 2018. The proposed amendments are expected to include the accounting treatment of bond repurchases, scope exclusions for certain activities by the federal government, and improvements to the transitional provisions.</td>
</tr>
<tr>
<td>Employee Future Benefit Obligations</td>
<td>PSAB has initiated a review of sections PS3250 <em>Retirement Benefits</em> and PS3255 <em>Post-Employment Benefits, Compensated Absences and Termination Benefits</em>. Given the complexity of issues involved and potential implications of any changes that may arise from this review, the project will be undertaken in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits.</td>
</tr>
<tr>
<td></td>
<td>- Three Invitations to Comment were issued and have closed. The first Invitation to Comment sought guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets. The second Invitation to Comment sought guidance on the present value measurement of accrued benefit obligations. A third Invitation to Comment sought guidance on non-traditional pension plans.</td>
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<td></td>
<td>- The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.</td>
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</tbody>
</table>
### Public Private Partnerships ("P3")

- A taskforce was established in 2016 as a result of increasing use of public private partnerships for the delivery of services and provision of assets.
- A Statement of Principles ("SOP") was issued in August 2017 which proposes new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership. An Exposure Draft of the new standard is expected to be issued in December 2018.
- The SOP proposes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends.
- The SOP proposes the public sector entity recognize a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure.
- The infrastructure would be valued at cost, with a liability of the same amount if one exists. Cost would be measured by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.

### Concepts Underlying Financial Performance

- PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards.
- A Statement of Concepts ("SOC") and Statement of Principles ("SOP") were issued for comment in May 2018 and has closed.
- The SOC proposes a revised, ten chapter conceptual framework intended to replace PS 1000 *Financial Statement Concepts* and PS 1100 *Financial Statement Objectives*. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced.
- The SOP includes principles intended to replace PS 1201 *Financial Statement Presentation*. The SOP proposes:
  - Removal of the net debt indicator, except for on the statement of net debt where it would be calculated exclusive of financial assets and liabilities that are externally restricted and/or not available to settle the liabilities or financial assets.
  - Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).
  - Restructuring the statement of financial position to present non-financial assets before liabilities.
  - Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities).
  - A new provision whereby an entity can use an amended budget in certain circumstances.
  - Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.
<table>
<thead>
<tr>
<th>Standard</th>
<th>Summary and implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Strategy</td>
<td>PSAB is in the process of reviewing its current approach towards International Public Sector Accounting Standards. This project may result in changes to the role PSAB plays in setting standards in Canada.</td>
</tr>
<tr>
<td></td>
<td>A consultation paper was released for comment in May 2018 and has closed. The consultation paper described the decision-making criteria PSAB expects to consider in evaluating the international strategy that best serves the public sector. It also introduced four proposed international strategies that PSAB considers to be viable.</td>
</tr>
</tbody>
</table>
Appendices

Appendix 1: Required communications
Appendix 2: Audit Quality and Risk Management
Appendix 3: Background and professional standards
Appendix 1: 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:

- **Auditors’ Report**
  The conclusion of our audit is set out in our draft auditors’ report attached to the draft financial statements.

- **Management representation letter**
  In accordance with professional standards, Management have provided you with a copy of the representation letter for the audit of the financial statements.

- **Audit Findings Report**
  In accordance with professional standards, as attached.

- **Other written communications**
  None

- **CPAB Audit Quality Insights Report (October 2018) (formerly the “Big Four Firm Public Report”)**
Appendix 2: 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 summarizes the six key elements of our quality control system.

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, the 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
- 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 3: Background and professional standards

Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all significant deficiencies or material weaknesses and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors’ report that are available through to the date of our auditors’ report. The objective of reading these documents through to the date of our auditors’ report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors’ report, contains the same information and carries the same meaning.
Responsibility for Financial Reporting

MANAGEMENT’S REPORT

The integrity, relevance and comparability of data in the accompanying consolidated financial statements are the responsibility of management.

The consolidated financial statements are prepared by management, in accordance with generally accepted accounting principles established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. They necessarily include some amounts that are based on the best estimates and judgments of management. Financial data elsewhere in the report is consistent with that in the financial statements.

To assist in its responsibility, management maintains accounting, budget and other controls to provide reasonable assurance that transactions are appropriately authorized, that assets are properly accounted for and safeguarded, and that financial records are reliable for preparation of financial statements.

City Council fulfils its responsibility for financial reporting through The City Council and its Audit Committee. The City Council consists of the Mayor and ten Councillors. The Audit Committee consists of seven Councillors.

KPMG LLP, Chartered Accountants, have been appointed by City Council to express an opinion on The City’s consolidated financial statements. Their report follows.

Joseph Pittari
Interim Chief Administrative Officer

David Sutton
Treasurer

Brampton, Canada
May 2, 2019
Schedule A

The Corporation of the City of Brampton
2018 Municipal Surplus Reconciliation, Tax Levy purposes vs Consolidated Financial Statements ('000)

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Operating Surplus (Deficit) as at December 31</strong></td>
<td>16,619</td>
<td>23,800</td>
</tr>
<tr>
<td><strong>Less:</strong> Return of operating surplus to Reserves and Reserve Funds</td>
<td>16,619</td>
<td>23,800</td>
</tr>
<tr>
<td><strong>Surplus per CityWide Operating Summary, December 31 (for tax levy purposes)</strong></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td><strong>Add:</strong> Net interfund transfer eliminated in consolidation</td>
<td>97,886</td>
<td>79,778</td>
</tr>
<tr>
<td><strong>Add:</strong> Grants/subsidies and other revenue received directly by Capital projects</td>
<td>14,037</td>
<td>13,319</td>
</tr>
<tr>
<td><strong>Add:</strong> Interest earned on reserves and reserve funds not included in the City's operating budget for tax levy purposes</td>
<td>15,611</td>
<td>11,755</td>
</tr>
<tr>
<td><strong>Add:</strong> DC revenues recognized during the year for project funding</td>
<td>97,843</td>
<td>133,174</td>
</tr>
<tr>
<td><strong>Add:</strong> Developers contributed assets recognized as municipal equity</td>
<td>74,246</td>
<td>55,834</td>
</tr>
<tr>
<td><strong>Less:</strong> PSAB adjustments re employee post retirement benefits and other legal liabilities</td>
<td>8,997</td>
<td>3,873</td>
</tr>
<tr>
<td><strong>Less:</strong> Expenses charged to Capital projects are reclassified as operating in nature</td>
<td>59,820</td>
<td>49,656</td>
</tr>
<tr>
<td><strong>Less:</strong> Amortization expense</td>
<td>139,110</td>
<td>130,611</td>
</tr>
<tr>
<td><strong>Less:</strong> Net cost of tangible capital assets disposed</td>
<td>111</td>
<td>576</td>
</tr>
<tr>
<td><strong>Total municipal surplus before consolidation</strong></td>
<td>91,585</td>
<td>109,144</td>
</tr>
<tr>
<td><strong>Consolidated entities surplus (net of consolidated eliminations, including the Library, BIA etc.):</strong></td>
<td>1,347</td>
<td>1,350</td>
</tr>
<tr>
<td><strong>Total annual surplus per Consolidated Statement of Operations, December 31</strong></td>
<td>$92,932</td>
<td>$110,494</td>
</tr>
</tbody>
</table>
Date: May 27, 2019

Subject: Audit Appointment Contract Extension

Contact: Maja Kuzmanov, Manager of Accounting, Corporate Services, 905-874-2259

Recommendations:

1. THA_ the report dated May 27, 2019 from Maja Kuzmanov, Manager of Accounting, Corporate Services Department to the Audit Committee meeting of June 11, 2019, re: Audit Appointment Contract Extension, be received; and,

2. THAT the appointment of KPMG\textsubscript{LLP} Chartered Accounts (KPMG\textsubscript{LLP}) be extended for one year commencing November 20, 2019, subject to the Treasurer finalizing an agreement with KPMG\textsubscript{LLP} for the provision of external audit services; and,

3. THAT a By-law be passed to confirm the extension of the appointment of KPMG\textsubscript{LLP} for one year commencing November 20, 2019.

OVERVIEW:

- Section 296 of the Municipal Act states that a municipality shall appoint an auditor licensed under the Public Accounting Act, 2004, and an auditor of a municipality shall not be appointed for a term not exceeding five years.

- As a result of a competitive procurement, KPMG\textsubscript{LLP} were appointed as the City's Auditor for a two-year term commencing November 20, 2013 and ending on November 19, 2015.

- Subsequently, Council extended the appointment of KPMG\textsubscript{LLP} for an additional three years in 2015 and an additional one year in 2018.

- This report recommends:
  - Extending the appointment of KPMG\textsubscript{LLP} for one additional year commencing November 20, 2019 with a 2% fee increase;
  - Passing a By-law to confirm the extension of appointment of KPMG\textsubscript{LLP} for a term of one year commencing November 20, 2019.
  - Authorizing the Treasurer to finalize an agreement with KPMG\textsubscript{LLP} for the provision of external audit services.
BACKGROUND

Section 296 of the Municipal Act, 2001 states

(1) **Auditor** - A municipality shall appoint an auditor who is licensed under the Public Accounting Act, 2004 who is responsible for annually auditing the accounts and transaction of the municipality and its local boards and expressing an opinion on the financial statements of these bodies based on the audit; and

(2) **Term** - An auditor of a municipality shall not be appointed for a term exceeding five years.

In the Fall of 2013, the City issued a Request for Proposals (RFP) for External Audit Services for a two-year period. KPMG\(_{LLP}\) was the successful bidder and was awarded a contract to provide External Audit Services for the period November 20, 2013 to November 19, 2015.

Subsequently, Council approved extension of the appointment of KPMG\(_{LLP}\) for an additional three years commencing November 20, 2015 and a one year extension commencing November 20, 2018.

CURRENT SITUATION

The City of Brampton must appoint External Auditors in order to comply with the requirements of section 296 of the Municipal Act, 2001. The current one year term of the appointment of KPMG\(_{LLP}\) ends on November 20, 2019.

Given the pending finalization of the Regional Government Review and its potential outcome, staff is recommending an additional one year contract extension for KPMG\(_{LLP}\) commencing November 20, 2019.

Cost of Service

KPMG\(_{LLP}\) is recommending a 2% ($2,575) fee increase for the one year contract extension which is in line with inflation.

KPMG\(_{LLP}\) have provided competitive pricing for the City of Brampton audit. In 2018, Finance conducted benchmarking analysis to assess audit cost of the services provided to the City by KPMG\(_{LLP}\) in comparison to the basic audit costs paid by several other GTA lower tier municipalities. The annual audit fees as a percentage of total consolidated expenditures were compared for the following municipalities for the 2016 fiscal year.

- City of Brampton
- City of Mississauga
- Town of Oakville
- Town of Caledon
- City of Vaughan
The average 2017 basic audit fee as a percentage of 2016 consolidated expenditures for the surveyed municipalities was 0.036%, while the City of Brampton’s fees were 0.021%.

The benchmarking showed that KPMG’s audit fees are competitive and lower than the average as compared to some of the other GTA municipalities.

Some other benchmarking measurements such as audit fees as a percentage of tax revenue collected showed a similar trend.

**Credentials and Experience**

KPMG LLP have significant credentials associated with providing municipal audit services.

Mr. Kevin Travers, Partner has been involved with the City's audit for the last 26 years, rising in the ranks of KPMG LLP from Staff Accountant to Partner.

Mr. Travers has provided important continuity in the provision of audit services and is responsible for the continued planning and efficient execution of the City's audit. KPMG LLP proposes that Mr. Travers continue his association with the annual audit of the City of Brampton.

KPMG LLP has also ensured that the City's Finance staff is updated on a regular basis with any new developments in the accounting and financial reporting requirements for Ontario municipalities. KPMG LLP updates include detailed explanations and impact analyses and their deep experience in this sector provides opportunities for Brampton to benchmark their accounting solutions with other Ontario municipalities.

Mr. Travers is the Local (Municipal) Government Sector leader for the Greater Toronto Area. He regularly presents at KPMG LLP webinars / seminars on new and emerging accounting and financial reporting topics for the municipal sector.

Mr. Travers has authored a case study focused on auditing and reporting in a municipal environment used by the Institute of Chartered Accountants of Ontario in their School of Accountancy.

Mr. Travers is Lead Audit Partner for some of the largest municipalities in the province of Ontario including Cities of Brampton, Mississauga, Markham, and Vaughan and the Region of York) as well as two municipally-owned electric utilities (Alectra Inc. and Veridian).

**CORPORATE IMPLICATIONS:**

**Financial Implications:**

$2,575 increase in annual audit fees to be absorbed against 2019 operating budget with future budgets amended as required.
STRATEGIC PLAN:

This report supports our Strategic Plan’s strong foundation of Good Government and the principles of accountability and transparency.

Living the Mosaic – 2040 Vision

This report has been prepared in full consideration of the overall vision that the people of Brampton will ‘Live the Mosaic’.

CONCLUSION:

City staff are recommending the appointment of KPMG\textregistered\textsuperscript{LLP} be extended for one year commencing November 20, 2019 for the provision of external audit services.

KPMG\textregistered\textsuperscript{LLP} have demonstrated that they have:

- Experienced and dedicated staff to conduct the audit of the City of Brampton.
- Access to highly qualified resources within KPMG\textregistered\textsuperscript{LLP} to provide specialized accounting and financial reporting standards support.
- Experience with other Ontario municipalities with similar audit requirements.
- Competitively priced services

City staff has been pleased with the level and quality of audit services provided by KPMG\textregistered\textsuperscript{LLP} and their proactive and cooperative approach to ensuring the City maintains a high standard of adherence to the accounting and financial reporting requirements for Ontario municipalities. This was particularly evidenced through their professional assistance and guidance in helping the City of Brampton to meet the financial reporting requirements necessary to receive the Canadian Award for Financial Reporting Achievement from the Government Finance Officers Association (GFOA) of the United States and Canada for the last 17 years.

Approved by:      Approved by:

_______________________________     ______________________________ _
David Sutton, Treasurer    Joe Pittari, Acting Chief Administrative Officer

Report Authored by: Maja Kuzmanov, Manager of Accounting