The Corporation of the City of Kitchener

Audit Planning Report for the year ended December 31, 2022

November 28, 2022

KPMG contacts

Key contacts in connection with this engagement

Matthew Betik
Lead Audit Engagement Partner
519-747-8245
mbetik@kpmg.ca

Courtney Cheal
Lead Senior Manager
519-747-8884
ccheal@kpmg.ca

Catherine Okon
Manager
519-747-8238
catherineokon@kpmg.ca

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Digital use information

This Audit Planning Report is also available as a "hyper-linked" PDF document.

If you are reading in electronic form (e.g. In "Adobe Reader" or "Board Books"), clicking on the home symbol on the top right corner will bring you back to this page.

Click on any item in the table of contents to navigate to that section.

Audit Quality: How do we deliver audit quality?

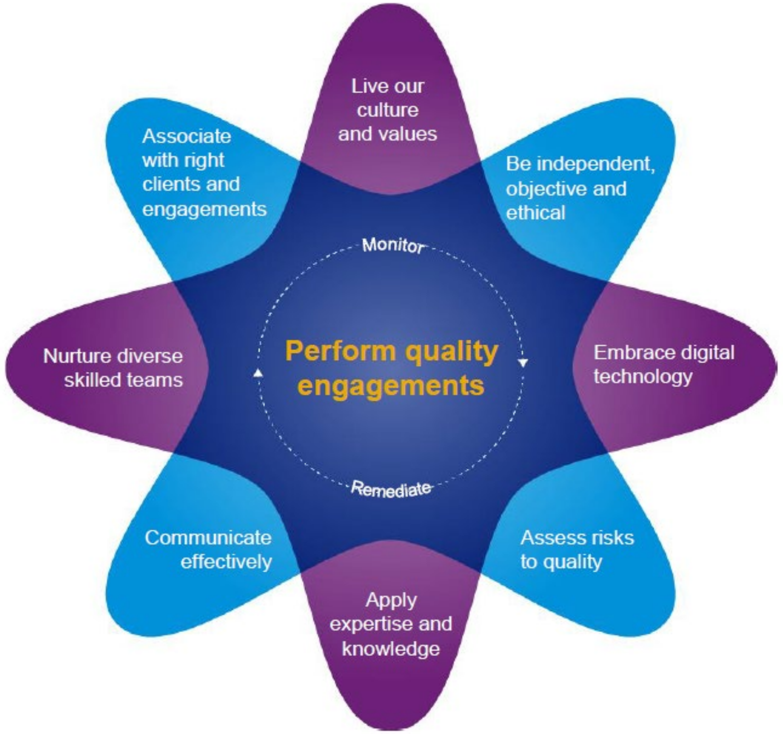
Quality essentially means doing the right thing and remains our highest priority. Our **Global Quality Framework** outlines how we deliver quality and how every partner and staff member contribute to its delivery.

'Perform quality engagements' sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.

We define '**audit quality**' as being the outcome when:

- audits are **executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls;** and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics** and **integrity.**



Doing the right thing. Always.

Audit Quality: Indicators (AQIs)

The objective of these measures is to provide more in-depth information about factors that influence audit quality within an audit process. Below are the AQIs that we have agreed with management are relevant for the audit. We would like to obtain agreement of the Audit Committee that these are the relevant AQIs.

We will communicate the status of the below AQIs on an annual basis.

Team composition

Experience of the team

- Role – number of years experience in the industry, number of years on this engagement

Technology in the audit

Implementation of technology in the audit

- Increase in use of technology in the audit year over year

Engagement hours

Hours spent by level and phase of the audit

- Number and percentage of hours incurred by EQCR, Partners, Executive Directors by significant risk or key audit matter
- Number and percentage of hours incurred by Directors, Senior Managers and Managers by significant risk or key audit matter
- Number and percentage of hours incurred by audit staff and seniors by significant risk or key audit matter
- Number and percentage of hours incurred by professionals with specialized skills by significant risk or key audit matter

Timing of prepared by client (PBC) items

Timeliness of PBC items

- Number of timely and overdue items received by the audit team.

Management and Audit Committee responsibilities

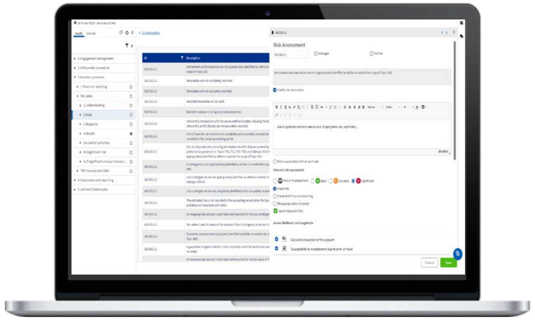
Results of internal and external reviews

- Number and nature of findings specific to the audit engagement

Our audit platform - KPMG Clara

Building upon our sound audit quality foundations, we are making significant investments to drive consistency and quality across our global audit practices. We've committed to an ongoing investment in innovative technologies and tools for engagement teams, such as KPMG Clara, our smart audit platform.

KPMG Clara workflow



Globally consistent execution

A modern, intuitively written, highly applicable audit methodology that allows us to deliver globally consistent engagements.

Learn more

KPMG Clara for clients

Real-time collaboration and transparency

Allows the client team to see the real-time status of the engagement and who from our KPMG team is leading on a deliverable.

Learn more

KPMG Clara analytics

Insights-driven efficient operations

Using the latest technologies to analyze data, KPMG Clara allows us to visualise the flow of transactions through the system, identify risks in your financial data and perform more specific audit procedures.

Learn more

Highlights

Scope of the audit

Our audit of the consolidated financial statements ("financial statements") of The Corporation of the City of Kitchener ("the Company") as of and for the year ending December 31, 2022, will be performed in accordance with Canadian generally accepted auditing standards (CASs).

Significant risks

We have identified significant risks of material misstatement for the audit. See significant risks section for details.

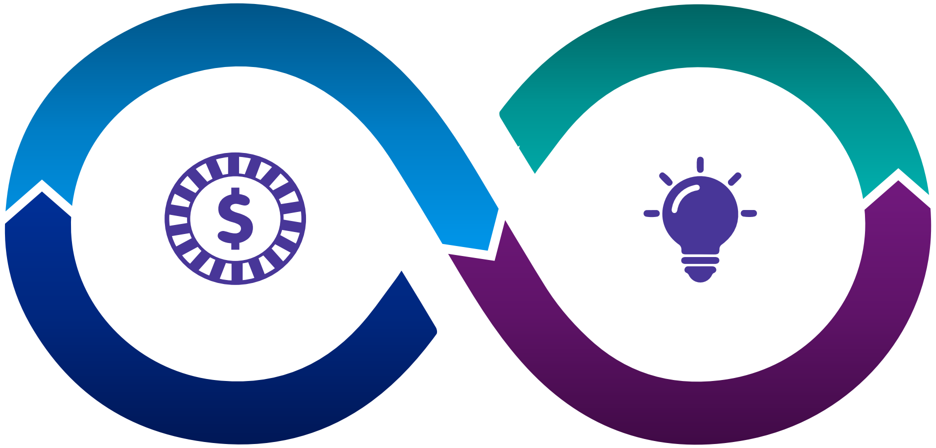
Rebuttable significant risks

The presumed fraud risk involving improper revenue recognition has been rebutted by us.

Required communications

See Appendix: Other required communications. The engagement letter will be provided at a later date

Materiality



We ***initially determine materiality*** at a level at which we consider that misstatements could reasonably be expected to influence the economic decisions of users. Determining materiality is a matter of ***professional judgement,*** considering both quantitative and qualitative factors, and is affected by our perception of the common financial information needs of users of the financial statements as a group. We do not consider the possible effect of misstatements on specific individual users, whose needs may vary widely.

We ***reassess materiality*** throughout the audit and revise materiality if we become aware of information that would have caused us to determine a different materiality level initially.

Plan and perform the audit

We ***initially determine materiality*** to provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures.

We design our procedures to detect misstatements at a level less than materiality in individual accounts and disclosures, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Evaluate the effect of misstatements

We also use materiality to evaluate the effect of:

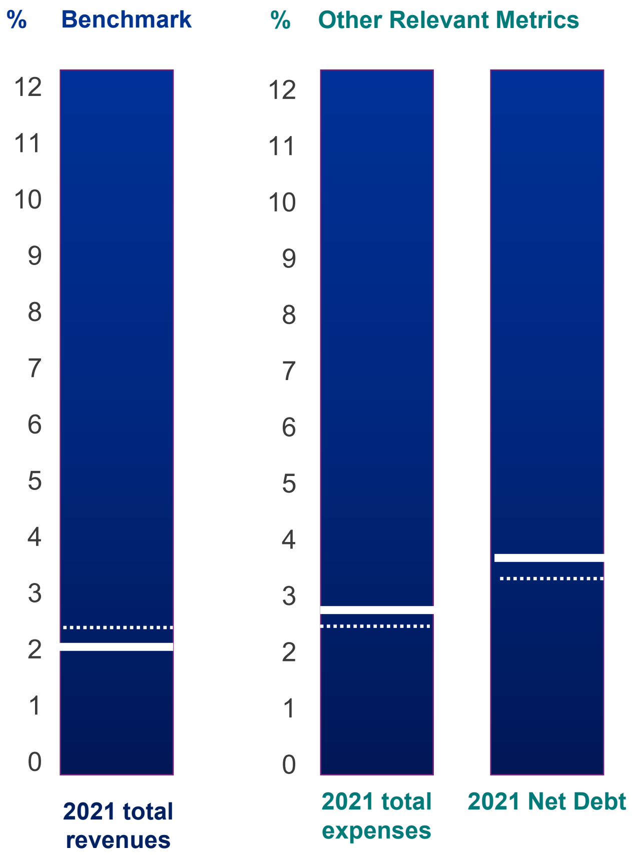
- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.

Materiality

Materiality

$10 million

(2021: $10.35M)



Prior year
Current year

2021 total revenues

$482,202,918

(2020: $462,542,874)

2021 total expenses

$376,675,172

(2020: $364,149,087)

2021 Net financial assets

$309,588,965

(2020: $270,286,073)

Audit Scope

Entities	Scoping
The Corporation of the City of Kitchener	Audit
City of Kitchener Gasworks Enterprise (special audit, not considered a component)	Audit
Kitchener Public Library	Audit
The Centre in the Square Inc.	Audit
Kitchener Downtown Improvement Area	Audit
Belmont Improvement Area	Audit
Kitchener Power Corp./Enova Energy Corporation	Audit
The Trust Funds of the Corporation of the City of Kitchener (special audit, not consolidated within the City of Kitchener financial statements	Audit

Significant risks

Management Override of Controls

RISK OF FRAUD

Presumption of the risk of fraud resulting from management override of controls

Why is it significant?

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

Audit approach

As this presumed risk of material misstatement due to fraud is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:

- testing of journal entries and other adjustments,
- performing a retrospective review of estimates
- evaluating the business rationale of significant unusual transactions.

Technologies

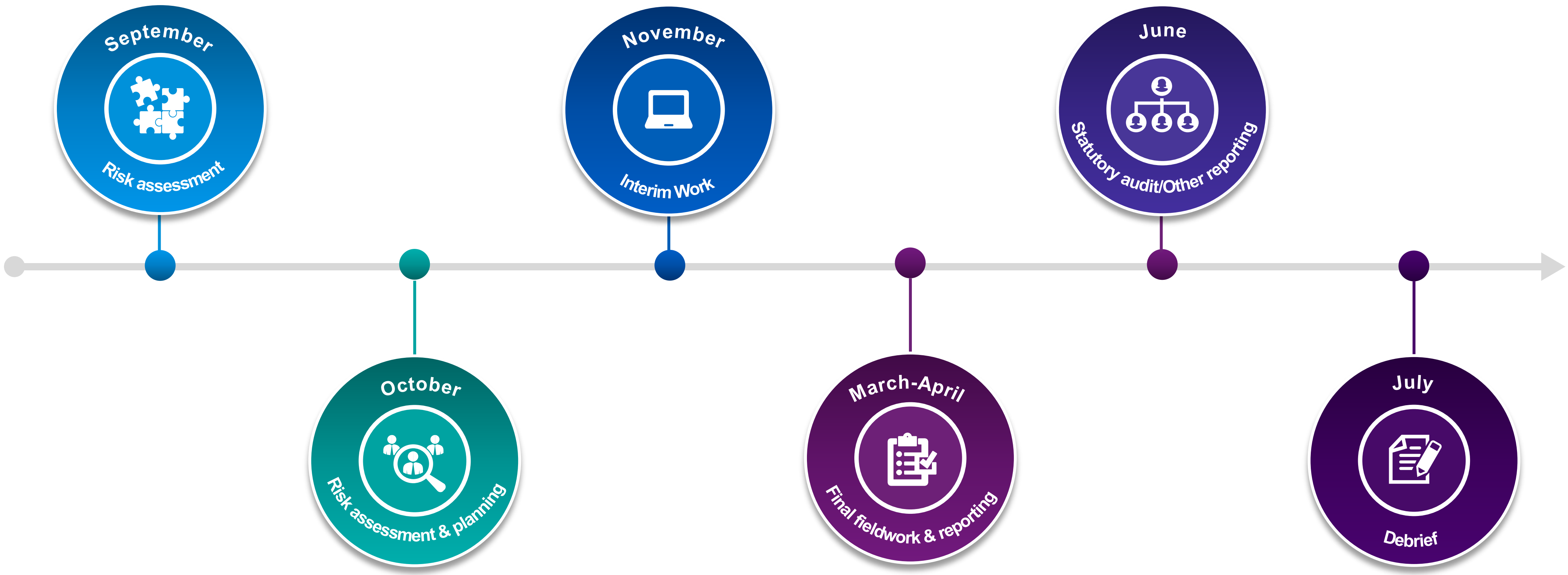
Our **KPMG Clara Journal Entry Analysis Tool** assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.

Click to learn more

Other areas of focus

Areas	Risk due to error	Audit approach
Post-employment benefits	Elevated We are focusing on this area due to this being an estimate with significant judgment used by management and management's specialists. Additionally there is complexity of the accounting guidance.	- Communicate with management's actuarial specialist - Assess the reasonableness of assumptions used, and - Test the reasonableness of the underlying data, including employee populations - We will also use the work of Mondelis Actuarial (actuarial consultant) in our audit of the accounts and disclosures
Tangible capital assets	Base We are focusing on this area due to the significance of the account balances and there is a risk of error in inappropriately recognizing costs as either capital or operating.	- Discuss capitalization policies and their application with management - Test a sample of capital additions to ensure existence and accuracy of additions - Test items recorded as repairs and maintenance or other similar accounts to ensure completeness of capital additions
Obligatory reserve fund revenue and deferred revenue	Elevated We are focusing on this area due to revenue recognized from development charge reserve fund is subject to judgment as capital projects must be growth related in nature	- Test controls around the recording of revenues/cash receipts - Perform substantive testing over amounts being recognized as revenue by ensuring the projects which the development charges are allocated to are appropriate and the related expenditure has incurred; and - Perform substantive testing over the collections of development charges recorded in the deferred revenue account
Investment in Enova Energy Corporation	Base We are focusing on this area due to the change in the City's investment in Kitchener Power Corporation to the newly merged Enova Energy Corporation	- Test the accounting for the merger

Key milestones and deliverables



Appendices

A **Newly effective auditing standards**

A **Other required communications**

A **Insights to enhance your business**

Appendix: Other required communications

CPAB communication protocol

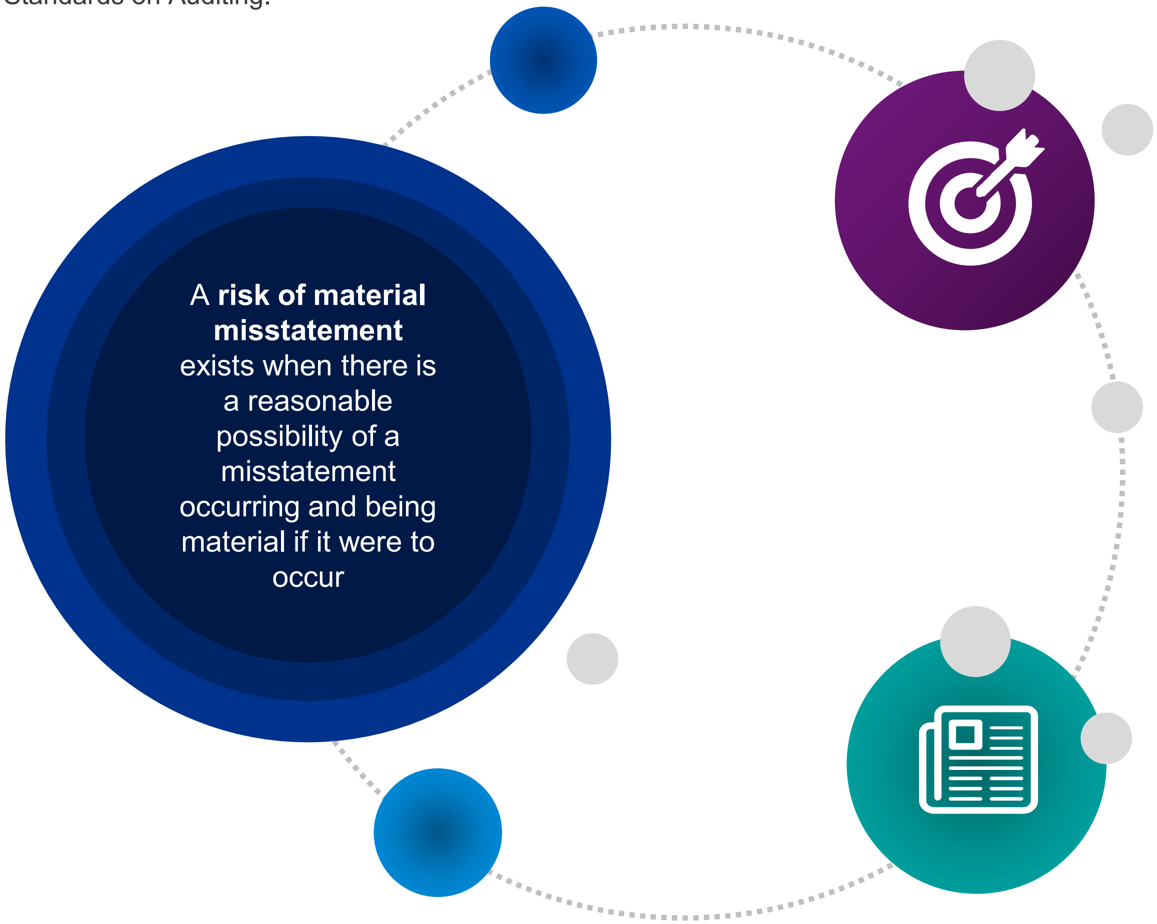
The reports available through the following links were published by the Canadian Public Accountability Board to inform Audit Committees and other stakeholders about the results of quality inspections conducted over the past year:

- CPAB Audit Quality Insights Report: 2021 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2022 Interim Inspections Results
- The 2022 Annual Inspection Results will be available in March 2023

The current year engagement letter will be provided to management at a later date.

Appendix: Newly effective auditing standards

CAS 315 (Revised) Identifying and Assessing the Risks of Material Misstatement has been revised, reorganized and modernized in response to challenges and issues with the previous standard. It aims to promote consistency in application, improve scalability, reduce complexity, support a more robust risk assessment and incorporate enhanced guidance material to respond to the evolving environment, including in relation to information technology. Conforming and consequential amendments have been made to other International Standards on Auditing.



Affects both preparers of financial statements and auditors

Applies to audits of financial statements for periods beginning on or after 15 December 2021

See here for more information from CPA Canada

We design and perform risk assessment procedures to obtain an understanding of the:

- entity and its environment;
- applicable financial reporting framework; and
- entity's system of internal control.

The audit evidence obtained from this understanding provides a basis for:

- identifying and assessing the risks of material misstatement, whether due to fraud or error; and
- the design of audit procedures that are responsive to the assessed risks of material misstatement.

Appendix: Newly effective auditing standards

Key change	Impact on the audit team	Impact on management
Overall, a more robust risk identification and assessment process, including: • New requirement to take into account how, and the degree to which, 'inherent risk factors' affect the susceptibility of relevant assertions to misstatement • New concept of significant classes of transactions, account balances and disclosures and relevant assertions to help us to identify and assess the risks of material misstatement • New requirement to separately assess inherent risk and control risk for each risk of material misstatement • Revised definition of significant risk for those risks which are close to the upper end of the spectrum of inherent risk	When assessing inherent risk for identified risks of material misstatement, we consider the degree to which inherent risk factors (such as complexity, subjectivity, uncertainty, change, susceptibility to management bias) affect the susceptibility of assertions to misstatement. We use the concept of the spectrum of inherent risk to assist us in making a judgement, based on the likelihood and magnitude of a possible misstatement, on a range from higher to lower, when assessing risks of material misstatement The changes may affect our assessments of the risks of material misstatement and the design of our planned audit procedures to respond to identified risks of material misstatement. If we do not plan to test the operating effectiveness of controls, the risk of material misstatement is the same as the assessment of inherent risk.	If the effect of this consideration is that our assessment of the risks of material misstatement is higher, then our audit approach may increase the number of controls tested and/or the extent of that testing, and/or our substantive procedures will be designed to be responsive to the higher risk. We may perform different audit procedures and request different information compared to previous audits, as part of a more focused response to the effects identified inherent risk factors have on the assessed risks of material misstatement.

Appendix: Newly effective auditing standards

Key change	Impact on the audit team	Impact on management
Overall, a more robust risk identification and assessment process, including evaluating whether the audit evidence obtained from risk assessment procedures provides an appropriate basis to identify and assess the risks of material misstatement	When making this evaluation, we consider all audit evidence obtained, whether corroborative or contradictory to management assertions. If we conclude the audit evidence obtained does not provide an appropriate basis, then we perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis.	In certain circumstances, we may perform additional risk assessment procedures, which may include further inquires of management, analytical procedures, inspection and/or observation.
Overall, a more robust risk identification and assessment process, including performing a 'stand back' at the end of the risk assessment process	We evaluate whether our determination that certain material classes of transactions, account balances or disclosures have no identified risks of material misstatement remains appropriate.	In certain circumstances, this evaluation may result in the identification of additional risks of material misstatement, which will require us to perform additional audit work to respond to these risks.

Appendix: Newly effective auditing standards

Key change	Impact on the audit team	Impact on management
Modernized to recognize the evolving environment, including in relation to IT	New requirement to understand the extent to which the business model integrates the use of IT. When obtaining an understanding of the IT environment, including IT applications and supporting IT infrastructure, it has been clarified that we also understand the IT processes and personnel involved in those processes relevant to the audit. Based on the identified controls we plan to evaluate, we are required to identify the: • IT applications and other aspects of the IT environment relevant to those controls • related risks arising from the use of IT and the entity's general IT controls that address them. Examples of risks that may arise from the use of IT include unauthorized access or program changes, inappropriate data changes, risks from the use of external or internal service providers for certain aspects of the entity's IT environment or cybersecurity risks.	We will expand our risk assessment procedures and are likely to engage more extensively with your IT and other relevant personnel when obtaining an understanding of the entity's use of IT, the IT environment and potential risks arising from IT. This might require increased involvement of IT audit professionals. Changes in the entity's use of IT and/or the IT environment may require increased audit effort to understand those changes and affect our assessment of the risks of material misstatement and audit response. Risks arising from the use of IT and our evaluation of general IT controls may affect our control risk assessments, and decisions about whether we test the operating effectiveness of controls for the purpose of placing reliance on them or obtain more audit evidence from substantive procedures. They may also affect our strategy for testing information that is produced by, or involves, the entity's IT applications.
Enhanced requirements relating to exercising professional skepticism	New requirement to design and perform risk assessment procedures in a manner that is not biased toward obtaining audit evidence that may be corroborative or toward excluding audit evidence that may be contradictory. Strengthened documentation requirements to demonstrate the exercise of professional scepticism.	We may make changes to the nature, timing and extent of our risk assessment procedures, such as our inquires of management, the activities we observe or the accounting records we inspect.

Appendix: Newly effective auditing standards

Key change	Impact on the audit team	Impact on management
Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of a control	We will evaluate the design and implementation of controls that address risks of material misstatement at the assertion level as follows: • Controls that address a significant risk. • Controls over journal entries, including non-standard journal entries. • Other controls we consider appropriate to evaluate to enable us to identify and assess risks of material misstatement and design our audit procedures	We may identify new or different controls that we plan to evaluate the design and implementation of, and possibly test the operating effectiveness to determine if we can place reliance on them. We may also identify risks arising from IT relating to the controls we plan to evaluate, which may result in the identification of general IT controls that we also need to evaluate and possibly test whether they are operating effectively. This may require increased involvement of IT audit specialists.

Appendix: Insights to enhance your business

Learn more

We have the unique opportunity as your auditors to perform a deeper dive to better understand your business processes that are relevant to financial reporting.

Lean in Audit

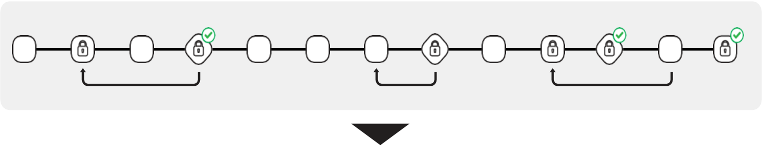
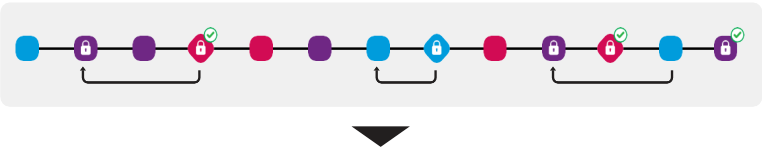
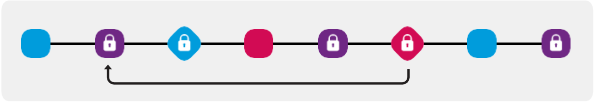
Lean in Audit™ is KPMG's award-winning methodology that offers a new way of looking at processes and engaging people within your finance function and organization through the audit.

By incorporating Lean process analysis techniques into our audit procedures, we can enhance our understanding of your business processes that are relevant to financial reporting and provide you with new and pragmatic insights to improve your processes and controls.

Clients like you have seen immediate benefits such as improved quality, reduced rework, shorter processing times and increased employee engagement.

We look forward to using this approach on your audit this year.

How it works

Standard Audit	Typical process and how it's audited	
Lean in Audit™	Applying a Lean lens to perform walkthroughs Typically 95% + is considered redundant through a customer's lens	
How Lean in Audit helps businesses improve processes	Make the process more streamlined and efficient for all	

Value: what customers want **(maximize)**

Necessary: required activities **(minimize)**

Redundant: non-essential activities **(remove)**

Process controls

Key controls tested

KPMG

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KPMG member firms around the world have 227,000 professionals, in 145 countries.