

Subject: 2024 External Audit Planning Report

Report to: Audit Committee

Report date: Monday, December 9, 2024

Recommendations

1. That this report **BE RECEIVED** for information.

Key Facts

- The purpose of this report is to share the KPMG audit plan for the year ending December 31, 2024, and fiscal year ending March 31, 2025 and notify committee members of their responsibility to disclose any known matters related to fraud, management control risks, financial reporting complaints as well as related party and significant unusual transactions to the auditors by February 2025.
- The requirement for an annual audit is established in the Municipal Act, S.O. 2001, c paragraph 294.1 through 296.1.
- Per AC-C 6-2024, KPMG has been appointed as the Niagara Region's (the Region) external auditor for a five-year term starting with the financial reporting for the calendar year ending December 31, 2024.

Financial Considerations

The financial statements will be prepared in compliance with legislation and in accordance with generally accepted accounting principles established by the Public Sector Accounting Board of Chartered Professional Accountants of Canada. Upon completion of the 2024 Annual Report, the audited financial statements will be available to the public on the Niagara Region's website:

[Annual and Quarterly Financial Reports](https://niagararegion.ca/government/budget/past-budgets/default.aspx)

(<https://niagararegion.ca/government/budget/past-budgets/default.aspx>)

As disclosed in AC C-6-2024, the audit fees for 2024/2025 are within the 2024 approved budget. The 2024/2025 fees include the audit of the Niagara Region's consolidated financial statements, program-specific audits required by various Ministries and other reports. The audit of the consolidated financial statements has been budgeted within the

Corporate Services department and the audit fees for program-specific audits have been budgeted within the respective program areas.

Analysis

The audit planning report is a communication provided to Audit Committee to inform the committee of the responsibilities of the auditor in relation to the financial statement audit, and an overview of the scope and timing of the external audit. It also provides Audit Committee with the opportunity to assess the audit plan and communicate any concerns to KPMG prior to the commencement of the audit. The responsibilities of the audit committee regarding the external audit function are to satisfy itself, on behalf of the Regional Council, that:

- Niagara Region's annual consolidated financial statements are fairly presented in accordance with generally accepted accounting principles and to recommend to Corporate Services Committee and Council whether the annual financial statements should be approved.
- Audited financial statements of the Niagara Region's boards, agencies, and commissions and other audited financial statements be received for information purposes following approval by the respective Board or Standing Committee, to assist in its overall assessment of the Region's annual consolidated financial statements and internal controls over financial reporting.
- The Region has implemented appropriate systems of internal control over financial reporting and that these are operating effectively.
- The Region has implemented appropriate systems of internal control to ensure compliance with legal, regulatory and ethical requirements.
- The external audit function has been effectively carried out and that any matter which the independent auditors wish to bring to the attention of Audit Committee, Corporate Services Committee and/or Council has been addressed.
- The Audit Committee will approve the replacement, reappointment and/or appointment of the external auditors to Corporate Services Committee and Council.

The Audit Planning Report (see Appendix 1), applies to the audit of the Niagara Region consolidated financial statements for the fiscal year ending December 31, 2024. The report also applies to program-specific audits completed annually due to provincial requirements (as in the case of provincially funded programs), or in certain situations

where audits or reviews are performed to ensure that an independent audit or review report on those operations is provided to the appropriate oversight body.

Per AC-C 6-2024 KPMG has been appointed as the Niagara Region's (the Region) external auditor for a five-year term starting with the financial reporting for the calendar year ending December 31, 2024. This will be the first reporting period audited by KPMG as our external auditors. The transition plan to move to KPMG as external auditors requires support from Region staff and Regional Council and includes communication with the predecessor auditor, meetings for KPMG to gain an understanding of important topics at the Region and a risk assessment.

As part of the standard audit process, auditors request members of Regional Council to communicate if they are aware of matters related to fraud, management control risks, financial reporting complaints as well as related party and significant unusual transactions which may impact the audit. Below is a list of standard questions provided by KPMG:

- What are the Council's views about fraud risks, including management override of controls, in the Region? And have you taken any actions to respond to any identified fraud risks?
- Is the Council aware of, or has Council identified, any instances of actual, suspected, or alleged fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?
- How does Council exercise oversight of the Region's fraud risks and the establishment of controls to address fraud risks?
- Is Council aware of tips or complaints regarding the Region's financial reporting (including those received through the Region's whistleblower program)? If so, Council's responses to such tips and complaints?
- Is Council aware of any instances where the Region entered into any significant unusual transactions?
- What is Council's understanding of the Region's relationships and transactions with related parties that are significant to the Region?
- Is Council concerned about those relationships or transactions with related parties? If so, the substance of those concerns?

KPMG will meet with the Audit Committee Chair in February 2025 to solicit information. If you have any information, you would like noted in response to the auditor's list of questions above, please advise to the Audit Chair in advance of this date.

Alternatives Reviewed

The consolidated financial statements are prepared using Public Sector Accounting Standards and require an audit per the municipal act, therefore no alternative is available.

Relationship to Council Strategic Priorities

Council Strategic Priority: Effective Region

Objective 1.3 – Deliver fiscally responsible and sustainable core services.

Other Pertinent Reports

[AC-C-6-2024 Appointment of Auditors](#)

(<https://niagararegion.ca/search/default.aspx?query=AC-C-6-2024+&c=pub-niagararegion.escribemeetings.com>)

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Appendices

Appendix 1 Regional Municipality of Niagara 2024 Audit Plan

Regional Municipality of Niagara

Audit Planning Report for the year ending December 31, 2024

KPMG LLP

Prepared as of October 24, 2024 for presentation on December 9, 2024

kpmg.ca/audit



Table of contents

<u>4</u>	Highlights	<u>5</u>	Audit strategy	<u>8</u>	Audit Scope & Deliverables
<u>9</u>	Risk assessment	<u>12</u>	Required inquiries	<u>13</u>	Key milestones and deliverables
<u>14</u>	Audit quality	<u>15</u>	Independence	<u>16</u>	Appendices

The purpose of this report is to assist you, as a member of Regional Council, in your review of the plan for our audit of the financial statements. This report is intended solely for the information and use of Management and Regional Council and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report to Regional Council has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Audit highlights

Scope

Our audit of the consolidated financial statements (“financial statements”) of Regional Municipality of Niagara (“the Entity”) as of and for the year ending December 31, 2024 will be performed in accordance with Canadian generally accepted auditing standards and public sector accounting standards.

Audit strategy

Materiality \$36 million

- We have calculated initial materiality based on 2.5% of 2023’s actual total revenues. See slides 5 and 6 for details.

Audit strategy - Group audit

Current year changes

- See slide 7 for additional details on upcoming accounting standards.
- **Group Audit & involvement of other auditors**
- Refer to slide 8 for the scope of Entities which are subject to audit.
- All audits within the scope of our engagement are performed by our local office.

Risk assessment

Risk of management override of controls (slide 9)

- Presumed fraud risk which must be addressed in each audit performed under Canadian Auditing Standards.

Areas of focus and risks of material misstatement

- Post-Employment Benefits
- Obligatory Reserve Fund Revenue and Deferred Revenue
- Tangible Capital Assets, including Asset Retirement Obligations

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.

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.

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.

Initial materiality

Initial materiality has been calculated as 2.5% of prior period (2023) Total Revenues. We have determined materiality to be \$36 million.

We will re-assess materiality based on actual 2024 results and report any changes to initial materiality to you, if applicable.

The audit misstatement posting threshold (AMPT) is initially set at \$1,800,000. We will profile all audit misstatements that exceed this threshold in our Audit Findings Report.

Accounting and Auditing Standards Changes

Newly effective accounting standards (effective for fiscal periods beginning on or after April 1, 2023)

PS 3400 – Revenue: Previous standards provided guidance for revenue recognition on primary revenue streams such as taxation revenue and government grants. The new standard provides general recognition guidance to provide consistency for other streams not previously covered by existing public sector standards.

PSG-8 – Purchased Intangibles: This standard governs recognition of intangible assets which were acquired through an exchange transaction, namely an arm’s length exchange between two willing parties (as opposed to inter-entity transfers, which are excluded).

PS 3160 – Public Private Partnerships: Public private partnerships (“P3s”) are an alternative procurement and finance model where public sector entities purchase infrastructure using a private sector partner.

We will discuss the upcoming standards with management and determine the impact to the Region’s financial statements and accounting policies, if any.

These are not expected to have a significant impact to the Region.

Newly effective auditing standards

No matters which are expected to have a significant impact on the audit. See Appendices for details.

Audit Scope and Deliverables

Entity Name	Scope
Consolidated Regional Municipality of Niagara	Audit
Sinking Funds	Audit
Trust Funds	Audit
Niagara Regional Housing	Audit
Niagara Court Services	Audit
Ambulance Dispatch	Special Report
General Health Programs	Special Report
Healthy Babies	Special Report
Infant and Child Development Program	Special Report
Mental Health	Special Report
Children's Services	Special Report
Children's Services Funded Child Care Centre Compliance	Special Report
Community Support Services	Special Report
Long-Term Care Facilities (8)	Special Report
Reaching Home	Special Report

Risk assessment summary

Our planning begins with an assessment of risks of material misstatement in your financial statements.

We draw upon our understanding of the Entity and its environment (e.g. the industry, the wider economic environment in which the business operates, etc.), our understanding of the Entity’s components of its system of internal control, including our business process understanding.

We use advanced technologies in performing our risk assessment procedures.

	Risk of fraud	Risk of error	Risk rating
● Management override of controls	Yes		Presumed - Significant
● Post-Employment Benefits		Yes	Elevated
● Obligatory Reserve Fund Revenue and Deferred Revenue		Yes	Elevated
● Tangible capital assets, including Asset Retirement Obligations		Yes	TCA - Elevated ARO - Base

Significant risks

Management Override of Controls (non-rebuttable significant risk of material misstatement)

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.

Our planned response

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 which require management's judgment to compute,
- evaluating the business rationale of significant unusual transactions, and
- Incorporating an element of unpredictability into our audit plan

Other risks of material misstatement

Areas	Level of Risk due to error	Our planned response
Tangible Capital Assets, including Asset Retirement Obligations	Elevated	<p>We will substantively test tangible capital asset additions to ensure they meet the criteria for capitalization and are recorded accurately.</p> <p>We will ensure the continuity schedule, including construction in progress, correctly rolls from the prior year.</p> <p>With respect to the asset retirement obligation, we will ensure that any changes made since its inception in the prior period are in line with management’s policy and the underlying accounting rules.</p> <p>We will ensure that annual adjustments are journalized appropriately.</p>

Other risks of material misstatement continued

Areas	Level of risk due to error	Our planned response
Post-Employment Benefits	Elevated	<p>We will communicate with management’s third party actuarial specialist to assess the reasonableness of assumptions used. We will test the accuracy of underlying data such as employee census data to ensure the actuary was provided with appropriate data to base their report on.</p> <p>We will also ensure financial statement disclosures are compliant with relevant requirements.</p>
Obligatory Reserve Fund Revenue and Deferred Revenue	Elevated	<p>We plan to perform substantive testing over the approval of development charge funding allocations to projects and substantively test amounts recognized as revenue. We will also obtain a sample of costs related to development charge revenue and ensure they are appropriate and allocated to the correct project.</p> <p>We will confirm funding received from lower tier municipalities.</p> <p>Lastly, we will assess grant revenue to determine if revenue recognition or treatment as deferred revenue is accurate.</p>

Required inquiries of Regional Council

Should members of Regional Council be aware of any matters related to the items below which may impact our financial statement audit, we request that we be notified for further discussion, if necessary.

Inquiries regarding risk assessment, including fraud risks

- What are the Council's views about fraud risks, including management override of controls, in the Region? And have you taken any actions to respond to any identified fraud risks?
- Is the Council aware of, or has Council identified, any instances of actual, suspected, or alleged fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?
- How does Council exercise oversight of the Region's fraud risks and the establishment of controls to address fraud risks?

Inquiries regarding processes

- Is Council aware of tips or complaints regarding the Region's financial reporting (including those received through the Region's whistleblower program, if such programs exist)? If so, Council's responses to such tips and complaints?

Inquires regarding related parties and significant unusual transactions

- Is Council aware of any instances where the Region entered into any significant unusual transactions?
- What is Council's understanding of the Region's relationships and transactions with related parties that are significant to the Region?
- Is Council concerned about those relationships or transactions with related parties? If so, the substance of those concerns?

Key milestones and deliverables

October 2024

Planning & Risk Assessment

- Kick-off with management
- Review of predecessor audit files
- Planning and initial risk assessment procedures, including:
 - Involvement of others
 - Identification and assessment of risks of misstatements and planned audit response for certain processes
- Obtain and update an understanding of the Region and its environment
- Inquire of, management and others within the Region about risks of material misstatement
- Computation of initial materiality

Nov/Dec 2024

Risk assessment & Interim work

- Presentation of Audit Plan
- Evaluate the Region's components of internal control, other than the control activities component
- Complete group audit scoping
- Perform process walkthroughs for certain business processes
- Identify process risk points for certain business processes
- Complete interim data extraction and processing activities
- Complete initial risk assessment
- Communicate audit plan
- Identify IT applications and environments
- Evaluate D&I of controls for certain business processes (control activity component)

Key milestones and deliverables continued

Mar/April 2025

Component audit field work

- Audits of Niagara Regional Housing, Niagara Court Services, Sinking Funds, Trust Funds and the Consolidated Region financial statements
- Perform substantive audit procedures
- Complete year-end data extraction and processing activities
- Perform remaining substantive audit procedures
- Evaluate results of audit procedures, including control deficiencies and audit misstatements identified
- Perform site visits as applicable
- Provide update on audit progress

April –2025

Region Fieldwork & Reporting

The following will be performed for the audits mentioned to have progressed throughout November/December and March/April

- Review financial statement disclosures
- Ensure AODA compliance of deliverables
- Present audit results to Council and perform required communications
- Issue draft audit report on financial statements
- Closing meeting with management
- Ensure final deliverables are ready for issuance in final upon Council's approval in May 2025.

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 contributes to its delivery.

The drivers outlined in the framework are the ten components of the KPMG System of Quality Management (SoQM). Aligned with ISQM 1/CSQM 1, our SoQM components also meet the requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA) and the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting in Canada, which apply to professional services firms that perform audits of financial statements. Our Transparency Report includes our firm's Statement on the Effectiveness of our SoQM.

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 management; and
- all of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

Independence: Pre-approval of services

Audit services

Detailed description of service

Audit of the consolidated financial statements of the Region as of December 31, 2024 in accordance with Public Sector Accounting Standards.

Audit of the financial statements and special reports of the related entities noted on Slide 7 as of December 31, 2024 in accordance with Public Sector Accounting Standards (or applicable framework for those special reports which are required to report in line with terms of various funding agreements).

Potential effects of the proposed service on independence

Such services are provided by the auditor pursuant to statutory or regulatory requirements and are permitted under CPA Code and ESBA independence rules.

We have not identified any services within our agreed upon scope which would infringe on our independence as external auditors.

Appendices

A Regulatory
communications

B New auditing
standards

C Insights

Appendix A: Regulatory 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: 2022 Annual Inspections Results

https://cpab-ccrc.ca/docs/default-source/inspections-reports/2022-annual-inspections-results-en.pdf?sfvrsn=5999936c_22

- CPAB Regulatory Oversight Report: 2023 Annual Inspections Results

<https://cpab-ccrc.ca/docs/default-source/inspections-reports/2023-annual-inspections-results-en.pdf>

Appendix B: Newly effective and upcoming changes to auditing standards

Effective for periods beginning on or after December 15, 2023

- ISA 600/CAS 600 Revised special considerations – Audits of group financial statements

Effective for periods beginning on or after December 15, 2024

- ISA 700/CAS 700 Forming an opinion and reporting on the financial statements
- ISA 260/CAS 260 Communications with those charged with governance

Appendix C: Audit and assurance insights

Our latest thinking on the issues that matter most to Audit Committees, Councils and management. Of particular note are Lean process reviews, fraud prevention and cyber penetration testing, which are services currently sought after to help strengthen organizations.

KPMG Audit & Assurance Insights

Curated research and insights for audit committees and boards.

Board Leadership Centre

Leading insights to help board members maximize boardroom opportunities

Current Developments

Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Assurance & Related Services, Canadian Securities Matters, and US Outlook reports.

Audit Committee Guide – Canadian Edition

A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada.

Accelerate 2024

The key issues driving the audit committee agenda in 2024.

Sustainability Reporting

Resource centre on implementing the new Canadian reporting standards

Government and Public Sector

We have a wealth of thought leadership to help public sector organizations grow and advance.