

# City of Mississauga

# Corporate Report



Date: April 23, 2020

To: Chair and Members of Audit Committee

From: Gary Kent, CPA, CGA, ICD.D, Commissioner of  
Corporate Services and Chief Financial Officer

Originator's files:

Meeting date:  
May 11, 2020

## Subject

**2019 External Audit Findings Report**

## Recommendation

That the 2019 External Audit Findings Report, dated April 23rd, 2020 from the Commissioner of Corporate Services and Chief Financial Officer, which includes the Audit Findings Report from KPMG for the fiscal year 2019 for the City of Mississauga (City), be received for information.

## Report Highlights

- The 2019 External Audit Findings Report provides an overview of the 2019 audit process and findings and highlights those matters on which the Auditors wish to advise the Audit Committee.
- The Audit Committee is responsible for reviewing any reports and correspondence from the External Auditor relating to the City and any local boards or agencies which may be created.
- There were 2 uncorrected audit differences for the City. Management has decided not to correct these differences and represented to the auditors that the differences, individually and in aggregate, in their judgement, are not material to the financial statements.
- There were two 2 corrected adjustments, related to the change in methodology that the City employed for unspent capital funds from obligatory reserve funds. Processes have been adjusted to accommodate this change in future years.
- There was 1 process improvement recommendation, which will be implemented as part of a Lean Project on the year-end financial reporting process.
- In 2018, there were 3 process improvement recommendations that have since been implemented.

## Background

The Audit Committee's Terms of Reference (Bylaw #0321-2010) establishes the role and responsibilities of the Audit Committee. The assigned responsibilities of the Committee include reviewing and making recommendations to Council regarding the external audit function, internal audit function, financial reporting, internal controls, and compliance

The Audit Committee is responsible for reviewing any reports and correspondence from the External Auditor relating to the City and any local boards or agencies which may be created. For fiscal year 2019, local boards and agencies include the Mississauga Public Library Board and the four Business Improvement Area Associations.

## Comments

KPMG have now completed the statutory audit for the fiscal year 2019 and have issued an Audit Findings Report for information.

The 2019 External Audit Findings Report assists the Audit Committee in the review of the consolidated financial statements and provides an overview and summary of the findings and an assessment of the completed audit. The report also provides information and comments regarding the following areas:

- Significant audit, accounting and reporting matters
- Any corrected or uncorrected audit items
- Control deficiencies and business improvement observations

The Process Improvement Observations section provides auditor comments and recommendations relating to the design or effectiveness of internal controls, and/or enhancements to financial accounting and reporting.

KPMG confirmed their independence in the Audit Planning Report. As there is no change at year end, they did not make a note related to independence in the Audit Findings Report. The independence disclosure identifies any professional services provided by our external auditors, KPMG, to the City during the year. It also identifies any relationships with the City that may reasonably be thought to bear on auditor independence.

### 2019 Corrected Adjustments: City Consolidated Financial Statements

There were two corrected adjustments in the 2019 financial statements, both related to an accounting methodology change the City applied during the year.

In 2019, the City reviewed its application of accounting methodology to recognize revenue on Development Charges as well as other obligatory reserve funds (e.g. Cash-in-lieu of parkland, Federal and Provincial Gas Taxes), and made the decision to apply unspent funds back to deferred revenue for non-DC – obligatory reserve funds moving forward.

As a result, the following changes were made:

- The 2018 period was recast and adjusted to increase revenue by \$3.28 million, increase deferred revenue— obligatory reserve funds by \$66.84 million, and decrease opening accumulated surplus as at January 1, 2018 by \$70.13 million.
- The current 2019 period was adjusted by \$1.9M to decrease revenue and increase deferred revenue – obligatory reserve funds to reflect corrections.

#### 2019 Uncorrected Differences: City Consolidated Financial Statements

The following differences remain uncorrected. Based on both qualitative and quantitative considerations, management have decided not to correct certain differences and represented to the auditors that the differences, individually and in the aggregate, in their judgment, are not material to the financial statements.

- In 2019, an out-of-period adjustment amounting to \$2.5 million was recorded to capitalize tangible capital assets – work in process and to record recoveries revenue for a transaction that occurred in 2018. As the amount is not material to the financial statements, it has not been corrected to the 2018 period; however, we have presented an uncorrected difference as a result of this out-of-period adjustment.
- The City recorded an adjustment in 2019 relating to an uncorrected difference carried over from 2018 on the amortization rate of periodicals. Consolidated tangible capital assets was adjusted downwards by \$1.8 million in the City's 2019 financial statements, however, given that the underlying transaction arose in 2018, this is an out-of-period adjustment for which we have presented an uncorrected difference impacting on 2019 results. The adjustment is not material to the City in either 2019 or 2018.

#### 2019 Process Improvement Recommendations

There was one process improvement recommendation from the 2019 external audit related to revenue recognition of obligatory reserve funds. The auditor's noted that, with the accounting methodology changes related to revenue recognition of deferred revenue – obligatory reserve funds made this year, management should review its current finance policies and procedures. These procedures should be reflective of the City's current operations, include recently created business activities or accounts, and procedures are applied consistently across similar areas affecting the elements in the financial statements.

#### *Management Comments:*

The City has a robust year-end financial reporting process, involving staff across the organization including Accounting, Payroll, Accounts Payable, Departmental Finance Staff, Tangible Capital Asset staff and project managers. The year-end schedule reinforces year-end accounting requirements, provides documented standard operating procedures on major requirements, and is updated frequently to account for new or updated public sector accounting standards.

Management recognizes that improvements can continue to be made on the year-end financial reporting process. As part of the City's Lean Program, a Lean Project has been initiated on the year-end financial reporting process to review and revise the current procedures in place. Management will ensure that procedures related to the accounting treatment of obligatory reserve funds specifically will be incorporated within the project scope, along with how to account for new business activities into the City's financial statements.

## Financial Impact

There is no financial impact as a direct result of this report.

## Conclusion

The 2019 External Audit Findings Report provides an overview of the 2019 audit process.

The report highlights any audit findings and/or audit observations and recommendations for the Audit Committee's review and consideration. There were 2 corrected adjustments related to the City's change in accounting methodology related to deferred revenues, obligatory reserve funds. A Lean review of the year-end financial reporting process will ensure that year-end processes are in place to identify this in the future.

There were two uncorrected audit differences for the City. Management have decided not to correct these differences and represented to the auditors that the differences, individually and in the aggregate, in their judgment, are not material to the financial statements.

There was one process improvement recommendation for the City to review its procedures related to year-end reporting. Management agrees with the recommendations and will be implementing a Lean review of the year-end reporting process and will revise the procedures as appropriate.

The auditors had no concerns with management's feedback and responses to the recommendations.

## Attachments

Appendix 1: 2019 Audit Findings Report

A handwritten signature in black ink that reads "G. Kent." with a period at the end.

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Gary Kent, CPA, CGA, ICD.D, Commissioner of Corporate Services and Chief Financial Officer

Prepared by: Wesley Anderson, Manager, Financial & Treasury Services