



Corporation of the Town of Blind River

**Audit Planning Report for the
year ended December 31, 2018**

KPMG LLP

December 17, 2018

kpmg.ca/audit



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The contacts at KPMG in connection with this report are:



Tiffany Cecchetto, CPA, CA
Lead Audit Engagement Partner
Tel: 705-669-2520
tcecchetto@kpmg.ca

Stefan Staneckyj CPA, CA
Audit Manager
Tel: 705-669-2522
sstaneckyj@kpmg.ca

Oscar Poloni, CPA, CA
Audit Partner / Office Managing Partner
Tel: 705-669-2515
opoloni@kpmg.ca

Executive summary



Group audit scope

Our audit consists of 2 components over which we plan to perform:

- Full scope audits

See page 10 for additional information

We will also complete statutory audits on entities not consolidated within the Town financial statements.



Audit and business risks

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- Key management estimates
- Risk of management override

See pages 5 to 9



Audit materiality

Materiality has been determined based on prior year expenditures. We have determined group materiality to be \$380,000. The audit posting threshold is \$19,000.

Executive summary



Independence & Quality Control

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services provided.



Proposed Fee

Proposed fees for the annual group of audits is \$47,250 as agreed to within the 2018 proposal.

See page 18.



Current developments and Audit Trends

Please refer to Appendix 1 to 4 starting on page 20 for relevant accounting and/or auditing changes relevant to the Company and relevant audit trends..

This Audit Planning Report should not be used for any other purpose or by anyone other than the Audit Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Planning Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.



Audit risks



Professional Requirements

Fraud risk from revenue recognition associated with the recognition of revenue associated with conditional funding sources and user fees.

Why is it significant?

This is a presumed fraud risk. Management may attempt to achieve certain financial results by overstating revenues.



Our audit approach

- **Reviewing revenue recognition for any conditional funding sources**
- **Reviewing year-end adjustments for user fees and other revenues to determine whether revenue has been overstated**
- **Testing journal entries to identify transactions intended to overstate revenues**



Audit risks



Professional Requirements

Fraud risk from management override of controls

Why is it significant?

This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.



Our audit approach

As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.



Audit Focus Areas



Other areas of focus

Key management estimates (landfill closure and post closure liability).

Revenue recognition

Why are we focusing here?

The Town's financial statements include a landfill closure and post closure liability that are determined based on management estimates

The Town is in receipt of funding that may be restricted in terms of use based on the amount of expenditures incurred or other considerations



Our audit approach

- **Assess the reasonableness of the underlying assumptions supporting the management estimate, including the accuracy of data used in the development of the estimate**
- **Determine the qualifications of management experts used to assist in the quantification of the estimates**
- **Review management estimates developed in the past in comparison to actual results**
- **Review funding agreements and other documentation to determine revenue recognition criteria**
- **Compare revenue recognized to expenditures incurred to assess the reasonableness of management's revenue recognition**
- **Review subsequent receipts to confirm the appropriateness of revenue recognized**



Audit Focus Areas



Other areas of focus

Capital additions

Compliance with established travel and expense reimbursement policies

Why are we focusing here?

Expenditures may be inappropriately classified depending on whether they meet the test of a betterment

A potential exposure to reputational risk may exist if Town staff and/or elected officials have contravened travel and expense reimbursement policies



Our audit approach

- Test capital additions and assess whether the requirements for capitalization have been met
- Test repair and maintenance and other relevant operating expenditures to determine if betterments have been expensed as opposed to capitalized
- Review the system of management controls over travel and expense reimbursement as a means of assessing the potential risk of non-compliance with established policies
- Test a sample of travel costs and expense reports for staff and Council in order to assess:
 - Compliance with designated approval authorities
 - Compliance with Town policy with respect to acceptable expenditures



Audit Focus Areas



Other areas of focus

LEAN in Audit

Why are we focusing here?

LEAN is a methodology for evaluating and enhancing the effectiveness and efficiency of internal processes.



Our audit approach

- Conduct a value stream mapping exercise on one financial processing transaction stream (Purchasing and Accounts Payable for year one)
- Report to management and council on the findings of the value stream mapping exercise



Group Audit Scope

Professional standards require that we obtain an understanding of the Company’s organizational structure, including its components and their environments that is sufficient to identify those components that are financially significant or that contain specific risks that must be addressed in our audit.

Group auditors are required to be involved in the component auditors’ risk assessment in order to identify significant risks to the group financial statements. If such significant risks are identified, the group auditor is required to evaluate the appropriateness of the audit procedures to be performed to respond to the identified risk.

Component	Why	Our audit approach	KPMG Office responsible
North Shore Power Group	Individually financially significant	Statutory audit of component financial statements	KPMG Sudbury office
Blind River Public Library	Not financially significant	Statutory audit of component financial statements (not to support the consolidated audit opinion)	KPMG Sudbury office
Huron Pines Golf and Country Club	Not financially significant	Statutory audit of component financial statements (not to support the consolidated audit opinion)	KPMG Sudbury office
Other entities			
Blind River Non-Profit Housing Corporation	Not consolidated as part of the Town financial statements	Statutory audit of financial statements	KPMG Sudbury office
Blind River Development Corporation	Not consolidated as part of the Town financial statements	Statutory audit of financial statements	KPMG Sudbury office

Materiality

Materiality Benchmark

Total Expenditures (prior year)

\$12,708,762

(2017: N/A – First Year Engagement)

Materiality

\$380,000

3% of total expenditures

(2017: N/A – First Year Engagement)



- Misstatements reported to the audit committee
- Materiality for the financial statements as a whole

Materiality represents the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

We will report to Council:



Corrected audit misstatements



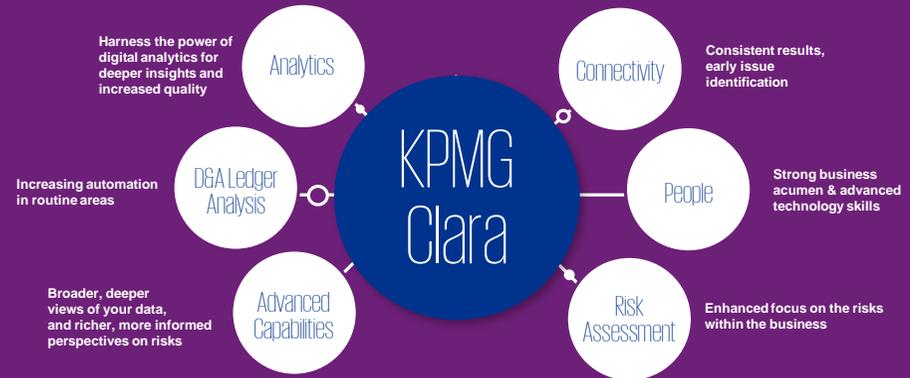
Uncorrected audit misstatements



The audit of today, tomorrow & the future

As part of KPMG’s technology leadership, our audit practice has developed technologies and alliances to continuously enhance our capabilities and deliver an exceptional audit experience.

Technology empowers us with the ability to perform deep analysis over your financial information, focusing our effort and interactions on the areas of greatest risk and minimizing disruption to your business.



Technology we use today

Tool	Benefit to audit
KPMG Clara Collaboration	KCCC is our secure audit platform and a one-stop shop through which we plan, execute and manage the audit, providing you with real-time access to the process at every step, including exchange of information and access to the real-time reporting you need in one central location.
KPMG Clara Advanced Capabilities	KPMG Clara Advanced Capabilities leverage our data and analytics capabilities, enabling us to analyze 100% of your general ledger data in the planning and account analysis stage and adjust our planned audit approach accordingly to target the areas of greatest risk. It allows us to use automation in performing our audit procedures over accounts such as (teams to edit for client-specific D&A routines; i.e., revenue and receivables, salaries, purchases and payables) and journal entries.
Visualization Tool	Our Visualization tool is a powerful and flexible end-to-end analytics platform which we leverage to display dynamic visualization of your data. This enables us to provide valuable insights to your business throughout our audit process.
Derivatives and Securities Valuation Tool	Our derivatives and securities valuation tool brings advanced valuation capability to independently re-price 100% of your level 1, 2 investment securities and derivative instruments. Our detailed reporting provides you greater insight, revealing instances where your pricing vendors may value sub-asset classes more conservatively or aggressively than others.
Account Analysis Tool	Our account analysis tool provides meaningful general ledger data insights during the planning phase of the audit that can be used to assist the engagement team in obtaining a more thorough understanding of the business processes and underlying flow of transactions through utilization of Account Analysis, Visual Ledger and Journal Entry Analysis functional features. Our tool enables a more precise risk assessment and development of a tailored audit approach.
Journal Entry Analysis	Our journal entry 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.
Data & Analytics Routines	Team to add details of specific D&A routines done on the client (can be combined with KPMG Clara Advanced Capabilities on the previous page)
Data Extraction & Analytics Tools	Our data extraction tools assist with risk assessment procedures and perform automated audit procedures in key cycles using data extracted directly from your ERP system.



The audit of today, tomorrow & the future

We continue to make significant investments in enhanced methodologies, new technologies and strategic alliances with leading technology companies that can have a transformative impact on auditing, and more broadly, financial reporting. KPMG is investing in the development of innovative audit technologies through both internal solutions and our alliances with technology firms including Finger Food, Microsoft, IBM Watson and others. We are committed to investing in cognitive technology to develop external auditing tools and technologies. Cognitive technology will enable us to teach a machine how to perceive, reason, and learn like a human being. This will be transformative to our profession, and will directly benefit to the Town of Blind River in the future.

We are developing intelligent automation to enable programmed reviews of unstructured data in source documents; freeing our professionals to focus their efforts on areas of greater risk. This may sound simple, but it's actually quite powerful, with complex underlying technologies.

Technology under development

Tools	Benefit to audit
Advanced Analytics Asset Impairment Tool	The asset impairment tool delivers advanced analysis of goodwill impairment models (based on discounted cash flows) through the use of predictive analytics, enabling a more robust and independent challenge of managements assumptions. Ability to flex and vary assumptions in real time, bringing in external economic and peer group data, as well as the previous year's cash flow models. This will ensure we have timely and focused discussions on the most sensitive assumptions that form your estimates over long-lived assets and goodwill well in advance of yearend fieldwork. We are able to independently perform sensitivity analysis by changing assumptions and sharing these with management, reducing the time required by your team to run various scenarios for us.
Advanced Analytics Bad Debt Tool	The bad debt tool assists with our evaluation of management's estimate of the bad debt provision. This is accomplished through multiple features, including robust risk assessment and scenario analysis using different provisioning levels; comparing movements in total provision to macroeconomic data such as changes in CPI, GDP, private consumption growth, and employment rate; and providing insights on the accuracy of the bad debt provision rate by tracking amounts as it transitions between last aging buckets.
Cognitive IBM Watson Loan Loss Analysis Tool	Our loan loss tool currently being piloted in Canada provides us with capabilities to improve the effectiveness and efficiency of the loan review process. This works by automating the ingestion of loan contracts and related source documents and by extracting and summarizing key terms for the audit engagement team's consideration, in turn providing increased coverage of the population and resulting in greater audit quality. Through AI machine learning techniques, IBM Watson identifies key elements impacting the loan risk rating. Utilizing our proprietary loan risk assessment process, IBM Watson then determines the risk grade and compares that to the risk grade assigned by (name of client). Each loan grade is accompanied by a confidence level assessment and supporting information which is extracted from credit files as well as market information which Watson obtains from various sources.
Business process mining (BPM)	BPM harnesses sub-ledger analytics and provides us with a deeper understanding of your processes. Our BPM tool is currently being piloted globally and will be coming soon to Canada. The tool provides immediate visualization of how 100% of your transactions are being processed to complement your process narratives and flow charts. A deeper understanding of your processes enhances our understanding of your business. This will ensure our team is focused on auditing the right risks and leveraging your team's resources efficiently. It also helps us identify inefficiencies or manual workarounds in a process and highlights where the process is under stress.



The audit of today, tomorrow & the future



Technology under development

Tools

Benefit to audit

Artificial Intelligence
Financial statement
disclosure analysis Tool

Our artificial intelligence capability will compare (name of client)'s financial statement disclosures against existing, new, and modified accounting guidance and pronouncements, in addition to comparing them against peer companies. We'll be able to share with you not only how your disclosures compare to the requirements but also to your peer group.

Dynamic Risk
Assessment

Dynamic Risk Assessment (DRA) gives us a more sophisticated, forward-looking and multi-dimensional approach to assessing audit risk. Using network theory, DRA considers not just the traditional, two-dimensional view of severity and likelihood but also how interconnected the risks are, how fast they may emerge and how systemic they are. It will provide a holistic enterprise-wide assessment of your risks, ensuring we have identified the relevant risk exposures that need to be incorporated into our audit approach.

Sentiment Analysis

Sentiment analysis is about scanning newsfeeds, social media and public data to get a real-time view of your brands while flagging emerging risks in the process. This allows us to highlight trends globally, and can also help to identify hotspots by asset or geography. If we see a spike in 'noise,' we investigate and discuss with you, as well as make an assessment of the impact on our audit.

Optical Contract Reader
& Analysis Tool

Our Optical Contract Reader & Analysis Tool provides us with capabilities to improve the effectiveness and efficiency of the contract review process. This works by automating the ingestion of contracts and related source documents and extracting and summarizing key terms for the audit engagement team's consideration, in turn providing increased coverage of the population and resulting in greater audit quality. The tool can also be used to read unstructured source documents in PDF format, extracting certain data such as invoice date, invoice number, account number, order number and total amount. This data is then compiled and compared to structured data from the general ledger. Time savings generated from this intelligent automation solution will allow our team to focus their efforts on areas of greater risk.

Robotic Process
Automation (RPA)

This application of cognitive computing technology allows our team to configure computer software—or a "robot"—to capture and interpret existing applications for processing a transaction, manipulating data, triggering responses, and communicating with other digital systems. {Teams to provide specific sentence of how this could work for their client. Consider that this could either through improving efficiencies, enabling us to re-direct our efforts to areas of greater risk or value or by increasing our coverage over more of the population and increasing our audit quality}.



Audit Quality Indicators (AQIs)



AQIs include quantitative measures about the audit process. The objective of these measures is to provide Council and management with more in-depth information about factors that influence audit quality within the audit process.

Below are the AQIs that we have agreed with management are relevant for the audit.

AQI	Measurement criteria	Measurement Description
Engagement Hours	Hours spent by level and phase of the audit	Number and percentage of hours incurred by Partners, Managers, audit staff and specialists Number and percentage of hours by phase of the audit (planning, interim reviews, interim procedures, year end procedures)
Timing of Prepared by Client (PBC) items	Timeliness of PBC items	Number of timely and overdue items received by the audit team
New accounting standards	Timing of planning and work performed on new accounting standards	Timing of completion of transition to new accounting standards Timing of planning and interim audit work performed on processes and accounts affected by the transition

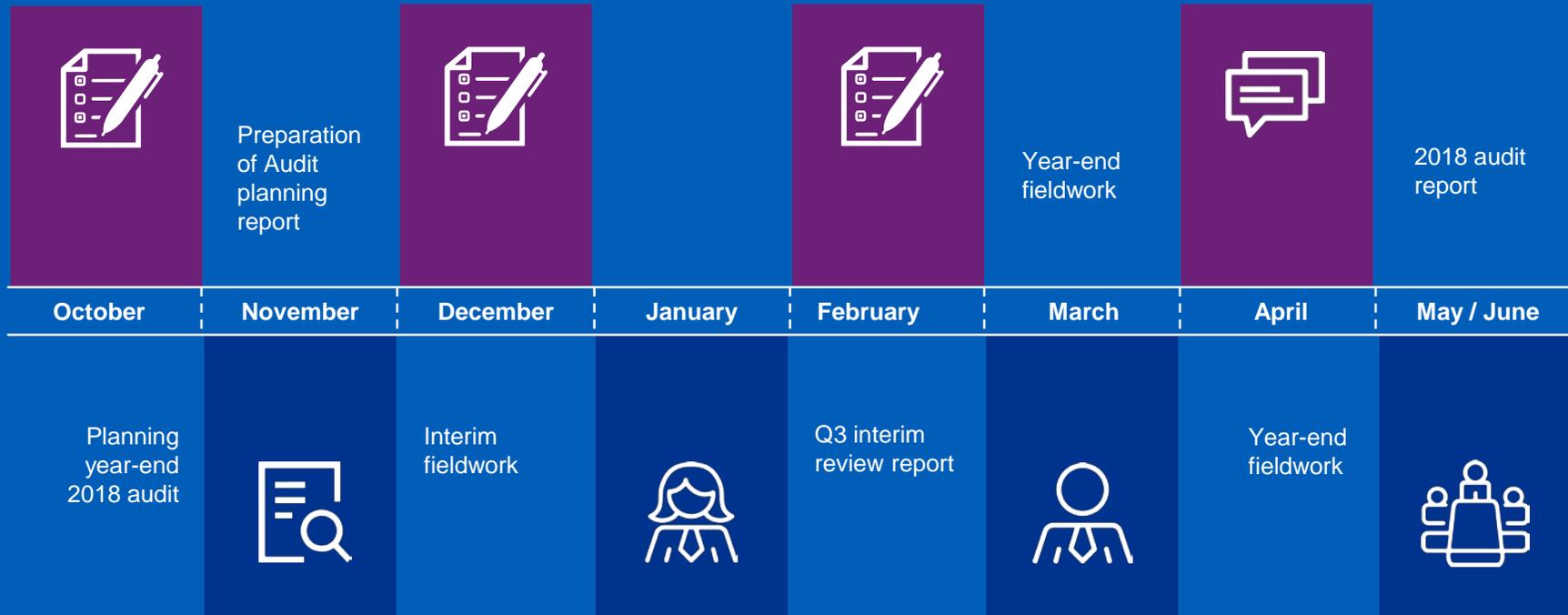


Highly talented and experienced team

Team Member	Years on engagement	Years of (specific) industry experience	Years at present level	Years with KPMG
Tiffany Cecchetto Lead Audit Engagement Partner tcecchetti@kpmg.ca 705-669-2520	1	15+ years	2 years	15+ years
Oscar Poloni Engagement Quality Control Reviewer opoloni@kpmg.ca 705-669-2515	1	20+ years	15+ years	20+ years
Stefan Staneckyji Audit Manager - Town sstaneckyji@kpmg.ca 705-669-2522	1	7 years	3 years	7 years
Stephanie Brouse Audit Manager – Housing Corporation sbrouse@kpmg.ca 705-669-2516	1	10+ years	3 years	10+ years
Andrew Bryanton Audit Senior Accountant – North Shore Power Group abryanton@kpmg.ca 705-669-2566	1	4 years	1 year	4 years



Key deliverables and milestones





Proposed fees



In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above.

Our fee analysis has been reviewed with and agreed upon as part of the proposal dated August 16, 2018 (in response to RFP 2018-004).

Our fees are estimated as follows:

	Current period (budget)	Prior period (actual)
Audit of the financial statements (consolidated statements for the Corporation of the Town of Blind River)	\$18,750	N/A
Audit of North Shore Power Group	\$14,750	N/A
Audits of remaining entities (Library, Huron Shores Country Club, Non-Profit Housing, Development Corporation)	\$14,500	N/A
Annual Information Return (Housing Corporation)	\$1,000	N/A
Tax Filings (North Shore Power Group)	\$750	N/A



Matters that could impact our fee

The proposed fees outlined above are based on the assumptions described in the engagement letter.

The critical assumptions, and factors that cause a change in our fees, include:

- Significant changes in the nature or size of the operations of the Town beyond those contemplated in our planning processes;
- Changes in professional standards or requirements arising as a result of changes in professional standards or the interpretation thereof;
- Changes in the time of our work;



The 2018 Auditors' Report



Highlights of changes to your 2018 auditors' report

Re-ordering of the auditors' report including moving opinion to the first section

Separate section on "Material Uncertainty Related to Going Concern" if a material uncertainty is identified.

Separate section on "Other Information" (e.g. MD&A)

Expanded descriptions of management's, including those related to assessing the Entity's ability to continue as a going concern

New description of responsibilities of those charged with governance

Expanded descriptions of management's, those charged with governance and auditors' responsibilities

Disclosure of name of the engagement partner



Key audit matter reporting

Communicating the key audit matters (KAMs) applies for audits performed in accordance with the Canadian Audit Standards.

KAMs are those matters communicated to those charged with governance that required significant auditor attention in performing the audit, and in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.

Currently, the reporting of KAMs in the auditors' report is only applicable when required by law or regulation or when the auditor is engaged to do so.

It is expected that KAM reporting will be required for certain listed entities in Canada starting in 2020.



Impact to the 2018 auditors' report

Accordingly, your 2018 auditors' report will not include the communication of any KAMs as we have not yet been engaged to communicate them and there is no law or regulation that requires such communication.

Appendices



[Appendix 1: Audit quality and risk management](#)



[Appendix 2: KPMG's audit approach and methodology](#)



[Appendix 3: Lean in Audit™](#)



[Appendix 4: Required Communications](#)



Appendix 1: Audit quality and risk management



KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards. Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems. Visit our [Audit Quality Resources](#) page for more information including access to our audit quality report, *Audit quality: Our hands-on process*.

Other controls include:

- Before the firm issues its audit report, Engagement Quality Control
- Reviewer reviews the appropriateness of key elements of publicly listed client audits.
- Technical department and specialist resources provide real-time support to audit teams in the field.

We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.

We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.

We do not offer services that would impair our independence.



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.

The processes we employ to help retain and develop people include:

- Assignment based on skills and experience;
- Rotation of partners;
- Performance evaluation;
- Development and training; and Appropriate supervision and coaching.

We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.

Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.



Appendix 2: KPMG's audit approach and methodology

This year we will expand our use of technology in our audit through our new smart audit platform, KPMG Clara.

Collaboration in the audit

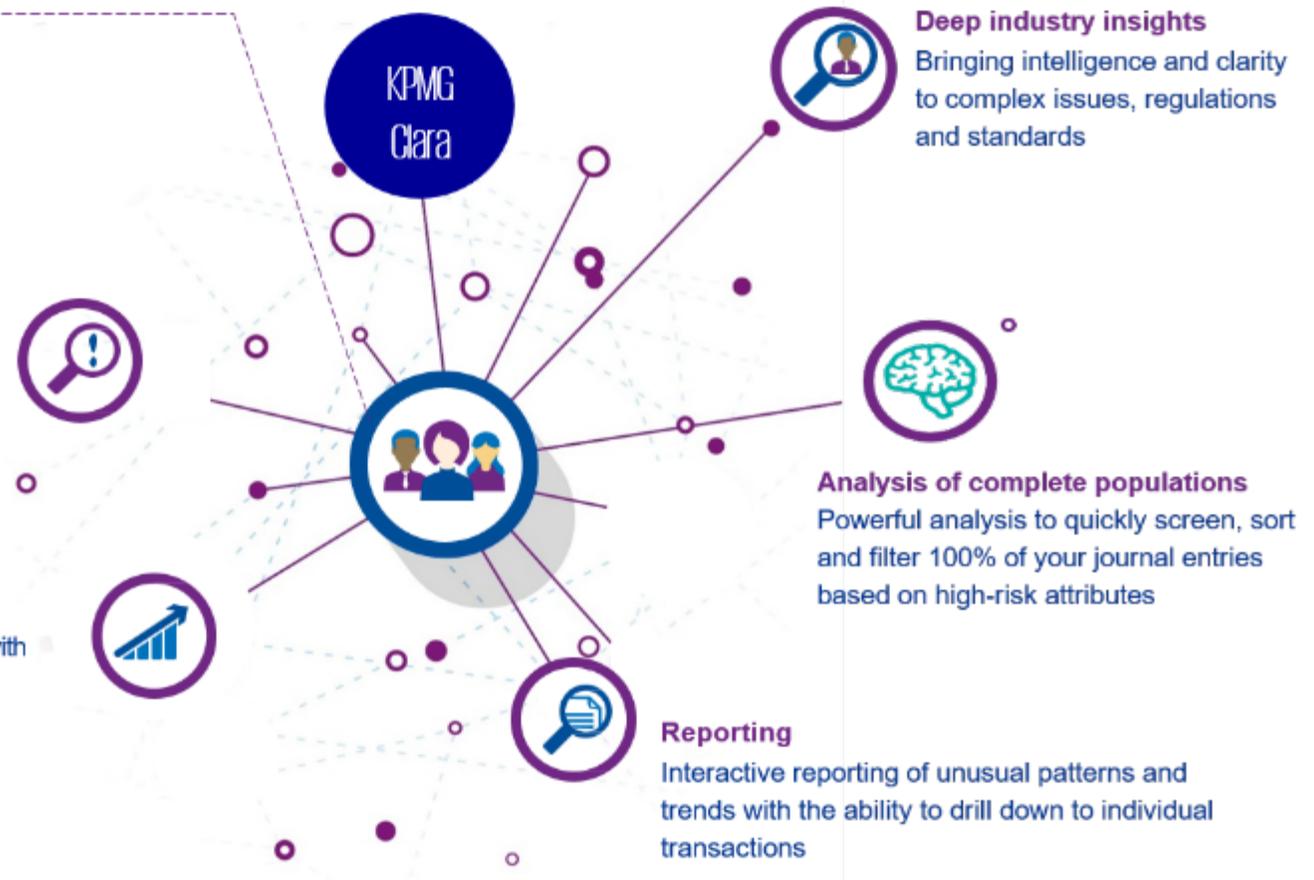
A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team

Issue identification

Continuous updates on audit progress, risks and findings before issues become events

Data-driven risk assessment

Automated identification of transactions with unexpected or unusual account combinations — helping focus on higher risk transactions and outliers





Appendix 3: Lean in Audit™



An innovative approach leading to enhanced value and quality

Our innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and management. For example, we may identify control gaps and potential process improvement areas, while management has the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.



How it works

Lean in Audit employs three key Lean techniques:



1. Lean training

Provide basic Lean training and equip our teams with a new Lean mindset to improve quality, value and productivity.



2. Interactive workshops

Perform interactive workshops to conduct walkthroughs of selected financial processes providing end-to-end transparency and understanding of process and control quality and effectiveness.



3. Insight reporting

Quick and pragmatic insight report including immediate quick win actions and prioritized opportunities to realize benefit.



Appendix 4: Required communications



In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:



Engagement letter

The objectives of the audit, our responsibilities in carrying out our audit, as well as management’s responsibilities, are set out in the engagement letter and any subsequent amendment letters as [provided by management / attached]. For PCAOB audits insert: Unless you inform us otherwise, we understand that you acknowledge and agreement to the terms of the engagement set out in the engagement letter and any subsequent amendments. In accordance with professional standards, copies of the engagement letter and any subsequent amendments will be provided to the Audit Committee annually.



Management representation letter

We will obtain from management certain representations at the completion of [each interim review and] the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Audit Committee.



Audit planning report

This report.



Audit findings report

At the completion of our audit, we will provide our audit findings to Council.



Required inquiries

Professional standards require that during the planning of our audit we obtain your views on risk of fraud and other matters. We make similar inquiries of management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly.



Annual independence letter

At the completion of our audit, we will provide our independence letter to Council.



CPAB Audit Quality Insights Report (October 2018) (formerly the “Big Four Firm Public Report”)



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