

# City of Greater Sudbury

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## Audit Findings Report to the Finance Committee

For the year ended December 31, 2005

This report is confidential and intended solely for the use of the Finance Committee, Management and others within the Municipality with respect to carrying out and discharging their responsibilities to review whether the financial statements of the City as at and for the year ended December 31, 2005 be approved and should not be used for any other purposes. No responsibility for loss or damages, if any, to any third party is accepted as this report has not been prepared for, and is not intended for, any other purpose.

## Contents

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- **Introduction**

- Audit Opinion on the Financial Statements
- Independence

- **Audit highlights and findings**

- Summary of Audit Approach
- Significant Accounting Policies
- Misstatements and Audit Judgements
- Other Matters Arising from the Audit
- Current Developments
- Performance Improvement Observations

## Audit Opinion on the Financial Statements

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- We have completed our audit of the City's financial statements in accordance with the Audit Plan and in accordance with professional standards.
- We examined on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessed the accounting principles used and their application and significant estimates made by Management and evaluated the overall financial statement presentation.
- Our audit report has been issued without reservation, dated April 28, 2006 and indicates that the financial statements present fairly, in all material respects, the financial position, results of operations and changes in financial position of the City in accordance with Canadian generally accepted accounting principles ("GAAP").

## Independence

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- Generally accepted auditing standards require that we communicate at least annually with you regarding all relationships between the City and us that, in our professional judgment, may reasonably be thought to bear on our independence
  - Our independence letter dated April 28, 2006 indicates a list of services provided by us to the entity.
  - There have been no additional services provided by us since the date of this letter.
  - Our independence letter dated April 28, 2006 indicates that we are not aware of relationships, other than the professional services that have been provided to the entity or its related entities, that, in our professional judgment, may reasonably be thought to bear on our independence as your auditors.
  - We are not aware of any other relationships since the date of this letter that may reasonably be thought to bear on our independence as your auditors.

## Summary of Audit Approach

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- General approach
  - Areas of risk
  - Materiality and audit risk
  - Reliance on internal controls
  - Obtain sufficient and appropriate audit evidence

## Significant Accounting Policies

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- Disclosed in note 1 to financial statements
- Change in account policy as it relates to liability recognition of obligations to others
  - Issue:
    - Section 3200 of PSAB requires recognition of a liability by a government when
      - There is a duty or responsibility to others which leaves the government with little or no discretion to avoid settlement of the obligation
      - The economic settlement has a specified or determinable date
      - The transactions or events obligating the government have already occurred
  - Implications:
    - The City has committed to donations to the Hospital, Cancer Centre, Medical School and Dynamic Earth
    - Should the City recognize these obligations as liabilities in the financial statements
  - Resolution:
    - In accordance with City by-laws, the City is committed to these donations
    - The amount and payment date of the obligation can be determined
    - \$18.7M long-term liability was retroactively reflected in the December 31, 2005 financial statements with a corresponding increase in the amounts to be recovered from future revenues

## Significant Accounting Policies

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- Reporting Entity
  - The City’s financial statements include entities that are “controlled” by Council
  - Control is defined to be situations where the City governs the financial and operating policies of another organization
  - Controlled entities include
    - City of Greater Sudbury Housing Corporation
    - Greater Sudbury Utilities
    - Sudbury Airport Community Development Corporation
    - Sudbury Community Development Corporation
    - Greater Sudbury Community Development Corporation
    - Metro Centre
    - Various Business Improvement Associations

## Matters Arising from the Audit

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- Management's Judgements and Estimates
  - Management has the responsibility for applying judgement in the preparation of accounting estimates and disclosures contained in the financial statements.
- Misstatements and Audit Adjustments
  - *Misstatements* represent audit findings or differences whereby we do not agree with the amount, classification, presentation or disclosure of items in the financial statements.
- Fraudulent / Illegal Acts
  - Matters that pose question to the honesty and integrity of management
  - Matters that may cause future financial statements to be materially misstated
- Internal Control
  - Management is responsible for the design and implementation of controls to provide reasonable assurance that the accounting systems provide timely, accurate and reliable financial information and safeguard assets.
- Other Matters
  - Managements cooperation with Auditors.

## Current Developments

Implications for the City	Recommendation	Management comment
<p>As mentioned in our Audit Planning Report, municipalities will (assuming proposed amendments are passed) be required to report tangible capital assets effective January 1, 2009. Since this change will have to be implemented retroactively information concerning these assets will be required for the 2008 fiscal year. This will be a significant undertaking for the City.</p>	<p>Resources (including financial and personnel) should be identified and a plan developed to account for the tangible capital assets of the City as soon as possible.</p>	<p>Staff concurs with this recommendations and has been monitoring developments closely to ensure the City is prepared for this change. Once the pronouncements are approved staff will provide Council with a detailed plan to deal with this issue.</p>

## Performance Improvement Observation

Observation and implication for the City	Recommendation	Management comment
<p>During our review, we encountered an instance where financial information originating in a department other than finance did not adequately flow to the finance department for the recording and processing of the transactions. Although similar instances occurred and were reported in prior years the number of instances were reduced during the current year.</p>	<p>Reporting protocols between finance and the other departments should be strengthened.</p>	<p>We anticipate that with the proposed realignment of the Finance Division more defined roles will exist between finance staff and departmental finance managers which should alleviate this problem in the future.</p>

## Performance Improvement Observation

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Observation and implication for the City	Recommendation	Management comment
<p>We noted that in 2003 the City passed a by-law which authorized the City to loan the Airport up to \$750,000 in any given budget year for the purpose of meeting its current operating and capital requests.</p> <p>We noted that as at December 31, 2005 the City advanced the Airport approximately \$952,000.</p>	<p>We recommend that Council reconsider the appropriateness of the by-law.</p>	<p>Management is in the process of developing a new operating agreement between the City and the Airport. The issue of borrowing limits will be addressed through the operating agreement.</p>