



City of Greater Sudbury

Audit Findings Report to Finance Committee
For the year ended December 31, 2006

June 18, 2007

Private & Confidential:

Intended solely for the use of the Finance Committee and Management of the City. Not intended for general circulation

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This Audit Findings Report is confidential and intended solely for the use of the Finance Committee and Management of the City. It is intended to assist the Finance Committee in carrying out and discharging their responsibilities to review and approve the consolidated financial statements of the City as at and for the year ended December 31, 2006. It 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 purposes.

Topics for discussion

Purpose of this report

- We have issued this report to assist members of the Finance Committee in your review of the financial statements.
- We welcome your questions and look forward to discussing our findings with you at this meeting.

Basis for information

- The matters that we raise within this report
 - arise from the financial statement audit
 - are matters that we believe need to be brought to your attention
- This report may not include all matters of interest to you. Please let us know of other areas you would like to discuss with us.

Audit status: **Complete**

- We have completed our audit of the City's consolidated financial statements in accordance with our Audit Plan and professional standards.
- We have released our audit report dated May 4, 2007.

Scope of a financial statement audit

- We perform an audit to provide reasonable assurance whether the financial statements are free of misstatements. In auditing, absolute assurance is not attainable because of such factors as (1) the nature of audit evidence (it is based on the use of testing, and much of the evidence available to the auditor is persuasive, rather than conclusive), (2) the inherent limitations of internal control over financial reporting, and (3) the characteristics of fraud. Accordingly, there is a risk that material misstatements, fraud and other illegal acts may exist and not be detected by an audit performed in accordance with professional standards.
- In an audit, we also make specific enquiries of management and obtain a supporting representation letter from management concerning the effectiveness of internal controls and the representations embodied in the financial statements, including the notes.
- In planning and performing a financial statement audit, we consider internal control over financial reporting to determine the nature, extent and timing of audit procedures. A financial statement audit does not provide assurance on the City's internal controls.
- Refer to the financial statements for our audit report.

Planning Materiality

Quantitative measure of materiality for planning purposes

- We define a level of materiality to provide a quantitative starting point for planning the precision of our audit.

For City of Greater Sudbury in the 2006 audit

- Materiality for planning purposes was established at \$2,200,000
- Based on one-half of one percent of revenue of the City, as required under generally accepted auditing standards.

Reporting materiality

- Reporting materiality is the threshold we use to determine whether corrections must be made at the completion of the audit.
- We have not adjusted our planning materiality during the course of the audit.

Significant Matters – Employee Future Benefits

Employee Future Benefits

- Benefits including life insurance, dental and health coverage are provided to employees upon retirement.
- The City is presently using a “pay as you go” basis for recording these costs.
- The liability for these future benefits has been estimated using an actuarial valuation prepared in March 2007 and which determines the City’s obligation as at December 31, 2006.
- The employee future benefits include liabilities for;
 - Future payments required to WSIB;
 - Post employment and post retirement benefits;
 - Vacation pay, and;
 - Sick leave benefits.
- Employee benefit obligations total \$40,706,060 at December 31, 2006 (2005 - \$38,972,932)

Actions taken

- Assumptions used by the actuary have been determined by management and reviewed for reasonableness by us.
- Calculation of current year estimate reviewed by us.
- KPMG concurs with management’s treatment.

Significant matters – Landfill Liability

Landfill Liability

- The City operates four active landfill sites and two closed landfill sites
- The active sites have a combined capacity of 12,171,307 metric tons, with approximately 5,751,120 metric tons remaining. At the current average fill rate, the active sites have a remaining operating life ranging from approximately 10 years in Walden to 47 years in Sudbury
- The liability for the future closure and post closure care costs has been accrued for the sites. The total accrual at December 31, 2006 was \$ 7,825,000, (2005 - \$7,228,000)
- Determination of this liability is dependant upon significant estimates by management and prepared by consultants

Actions taken

- Calculation of the liability has been reviewed.
- We concur with management's estimates and assumptions

Significant matter – Allowance for doubtful taxes

Allowance for Doubtful Taxes

- The allowance for doubtful taxes is \$3,637,500 (2005 \$2,966,511)
- The allowance is determined by management and includes allowances for properties in arrears (including contaminated properties) as well as allowances for pending MOS/ ARB/ 357 and 358
- Determination of the allowance is dependant upon estimation of future payments as well as the success rate of appeal.

Actions taken

- Managements estimation of losses is consistent with the prior year methodology.
- We concur with management's methodology.

Significant matter – Accrual for cross border ambulance services

Cross border ambulance services

- Municipalities can invoice each other for ambulance calls provided. Municipalities are not paying invoices until concerns regarding the legislation surrounding this practice has been resolved.

Actions taken

- Managements estimation of the current year accrual is consistent with the prior year methodology.
- We concur with management's methodology.

Misstatements

Summary of uncorrected/corrected audit differences

Description	Effect on Statement of Financial Position ¹			Effect on Statement of Financial Activity ¹
	Financial Assets	Liabilities	Municipal Position	Statement of Financial Activity
<i>Uncorrected Audit Differences</i>				
Total uncorrected audit differences	(424,607)	112,400	381,707	(69,500)
Financial statement amounts	196,933,000	168,333,000	111,657,000	15,909,000
Percentage of financial amounts	0.22%	0.067%	0.34%	0.43%
<i>Corrected Audit Differences</i>				
Total corrected audit differences	(314,240)	(630,000)	830,240	114,000

¹ Debit (Credit)

Performance improvement observations

Observation and implication for the City	Recommendation	Management comment
<p>Procurement Cards</p> <p>We noted instances where purchases made using Procurement Cards were not approved by the supervisor in accordance with existing policy.</p> <p>Purchase Orders</p> <p>We noted that although all invoices tested were properly approved the supporting purchase orders were approved subsequent to the receipt of the goods.</p> <p>Building Permits</p> <p>In certain instances building permit revenue is recognized prior to entitlement.</p>	<p>We recommend that the established policy for the approval of Procurement Cards be followed.</p> <p>We recommend that the existing policy which requires purchase order approval prior to the ordering of the goods be adhered to.</p> <p>We recommend that building permit fees not be recognized in advance.</p>	<p>Management will initiate further education and training regarding Procurement Card policy with all departments.</p> <p>Management will be undertaking a process review of the purchases and payables system and this will address the issue.</p> <p>Management is aware of this issue and will be addressing the matter.</p>

Performance improvement observations

Observation and implication for the City	Recommendation	Management comment
<p>Audit Committee</p> <p>We noted that the City does not have an audit committee to oversee it's financial reporting, external audit processes and internal control operations. Other public sector entities, hospitals, universities and other municipalities, have established audit committees.</p>	<p>We recommend that Council consider the creation of such a Committee as it would provide Council, Management and the external auditors a form to address financial and related issues.</p>	<p>Management will be providing Council with Terms of Reference for an Audit Committee by September 2007.</p>

Matters pertaining to the financial statement audit

Matters communicated	Comments
<i>Significant unusual transactions</i>	We did not identify, in the course of our financial statement audit, any significant unusual transactions.
<i>Accounting policies, judgments and estimates</i>	<p>Management describes their critical accounting policies and key estimates that are subject to uncertainty in note (1) and notes (4) and (6) to the financial statements, respectively.</p> <p>We identified, in the course of our financial statement audit, no material changes in selection or application of accounting policies.</p> <p>We identified, in the course of our financial statement audit, no material new accounting policies.</p> <p>We identified, in the course of our financial statement audit, no accounting policies in controversial or emerging areas.</p>

Matters pertaining to the financial statement audit

Matters communicated	Comments
<i>Changes to our audit plan</i>	We conducted our audit in accordance with the audit plan presented to the Finance committee in February 2007.
<i>Material weaknesses in internal control over financial reporting</i>	We did not identify, in the course of our financial statement audit, any material weaknesses in the design, implementation or operating effectiveness of internal control over financial reporting, including anti-fraud controls. Our audit has not been designed to determine the adequacy of internal control over financial reporting for management purposes.

Matters pertaining to the financial statement audit

Matters communicated	Comments
<i>Illegal and fraudulent activities</i>	<p>We did not identify, during our financial statement audit, any illegal acts or possibly illegal acts.</p> <p>We did not identify, during our financial statement audit, any:</p> <ul style="list-style-type: none"> • matters that pose questions regarding the honesty and integrity of management • fraud or suspected fraud involving management • fraud or suspected fraud involving employees who have significant roles in internal control over financial reporting • fraud or suspected fraud (whether caused by management or other employees) that results, or may result, in a non-trivial misstatement of the financial statements • matters that may cause future financial statements to be materially misstated
<i>Auditors' independence</i>	<p>Our independence letter dated May 4, 2007, includes a list of professional services provided by us to the entity or its related entities, together with the amount of fees billed for such services and any other identified relationships that, in our professional judgment, may reasonably be thought to bear on our independence.</p> <p>We have, since the date of this letter, provided no additional professional services nor identified other relationships that, in our professional judgment, may reasonably be thought to bear on our independence. Accordingly, we confirm that, since the date of this letter, we remain independent.</p>

Matters pertaining to the financial statement audit

Matters communicated	Comments
<i>Dealings with Management</i>	<p>We received the full cooperation of Management and employees of the City and, to our knowledge, had complete access to the accounting records and other documents that we needed in order to carry out our audit.</p> <p>We had no disagreements with Management, and we have resolved all auditing, accounting and presentation issues to our satisfaction.</p>
<i>Consultation with other Accountants</i>	<p>We are not aware of any consultations by Management with other accountants regarding accounting or auditing matters.</p>
<i>Major issues discussed with Management that influence our audit appointment</i>	<p>We did not engage in discussion with Management about any major issues in connection with our appointment as auditors.</p>
<i>Audit Differences</i>	<p>We report that no other misstatements were identified during the financial statement audit.</p>

Current Developments – Tangible Capital Assets

Tangible Capital Assets

- As previously discussed with the Finance Committee, the Canadian Institute of Chartered Accountants Public Sector Accounting Standards Board has approved the recommendations of Section 3150, *Tangible Capital Assets*.
 - The new standard will require all Canadian local governments to account for tangible capital assets on their statement of financial position commencing with the publication of their December 31, 2009 financial statements at historical cost and to amortize this cost over the asset's estimated useful life.
 - The new standard will require retroactive application.

Update

- Management has begun the process
- We have attended a meeting with management and staff at which time many items as noted below were discussed:
 - How to determine historical cost
 - Development of capitalization threshold
 - Development of depreciation policies
 - Information system requirements
- Sufficient resources will have to be available for management.

Current Developments – New Accounting Pronouncements

New Accounting Pronouncements

- Coinciding with the requirement for municipalities to report on tangible capital assets is a change to existing accounting standards relating to financial statements presentation.
 - PS1200 – Financial statement presentation
 - The new standard will add a new statement of operations which will include depreciation as an expenditure.
 - In addition, the existing statement of financial activities will be modified and referred to statement of changes in net debt.
 - PS2700 – Segment disclosures
 - The new standard encourages the disclosure of financial information relating to major functional areas.
 - Government transfers (exposure draft)
 - The exposure draft outlines accounting policies relating to amounts received from government agencies.

Implications to the City

- Management must gain an understanding of these changes.
- Sufficient resources will have to be available for management.