

# City of Greater Sudbury

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## Audit Planning Report

Year ended December 31, 2005

*This audit plan is prepared for the year ending December 31, 2005 and is designed to provide an overview for Council of the City of Greater Sudbury of the audit procedures to be performed by the external auditors in discharging their audit responsibilities.*

*This document has been prepared solely for the use of Council in discharging its responsibilities and should not be used for any other purpose. We disclaim any obligation to any third party who may rely upon this document.*

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## Key Responsibilities Regarding Financial Statement Reporting

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### Finance Committee/Audit Committee

- Provide oversight; challenge and influence – “Tone at the Top”
- Oversee the monitoring of risk, financial reporting and compliance with the law
- Oversee the control environment and reporting process and encourage continual improvement
- Review and discuss with the auditors, and approve audit plan
- Review annual financial statements and internal control effectiveness with management and external auditors
- Approve annual financial statements

### Management

- Prepare financial statements and notes, in accordance with Canadian GAAP (PSAB)
- Design, implement and maintain effective internal control over financial reporting processes
- Adopt and apply sound accounting principles and apply sound judgment in preparing accounting estimates and disclosures contained in the financial statements
- Prevent and detect error or fraud
- Disclose to external auditors any fraud or suspected fraud and any illegal acts or possibly illegal acts
- Assess impact of misstatements discovered during the audit on fair presentation of the financial statements and record all material adjustments

### External Auditors

- Be independent and communicate independence in accordance with Canadian professional requirements
- Conduct an audit in accordance with Canadian GAAS
- Express an opinion on the financial statements based on the audit
- Communicate openly with Audit Committee and Management

## Audit Methodology – How it Works

### Audit Methodology

1	Planning	1	<ul style="list-style-type: none"> <li>• Perform risk assessment procedures and identify risks</li> <li>• Determine audit strategy and identify critical accounting matters</li> <li>• Determine planned audit approach</li> </ul>
2	Control Evaluation	2	<ul style="list-style-type: none"> <li>• Understand accounting and reporting activities</li> <li>• Evaluate design and implementation of selected controls</li> <li>• Test operating effectiveness of selected controls</li> <li>• Assess control risk and risk of significant misstatement</li> </ul>
3	Substantive Testing		<ul style="list-style-type: none"> <li>• Plan substantive procedures</li> <li>• Perform substantive procedures</li> <li>• Consider if audit evidence is sufficient and appropriate</li> <li>• Conclude on critical accounting matters</li> </ul>
4	Completion		<ul style="list-style-type: none"> <li>• Perform completion procedures</li> <li>• Perform overall evaluation of the financial statement and disclosures</li> <li>• Form an audit opinion</li> </ul>

**1** **Preliminary** decision on controls or substantive approach for each audit objective

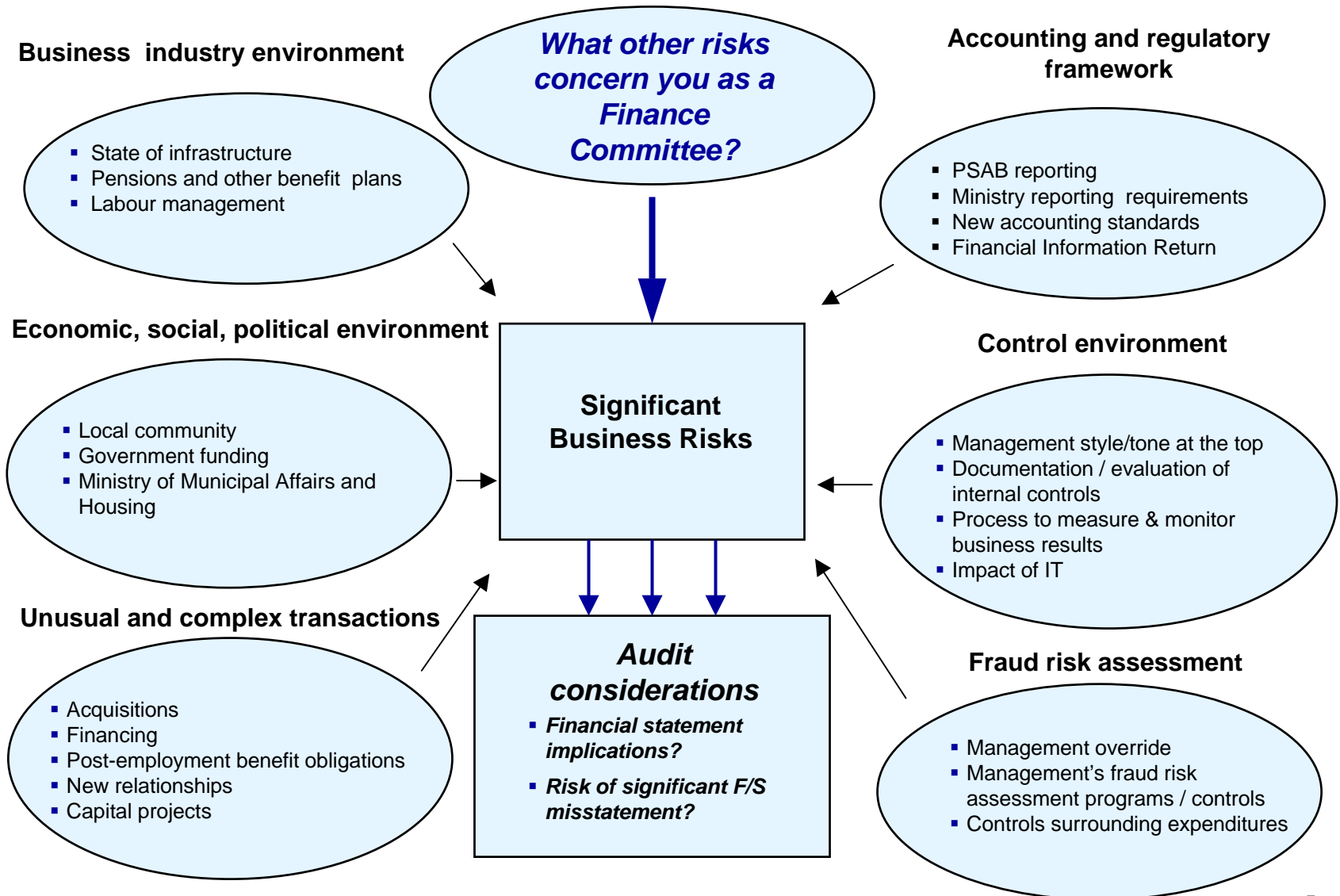
**2** **Confirm** decision on controls or substantive approach for each audit objective

## Audit Methodology

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- We use a risk-based approach to understand your City and its business environment. The audit team preliminarily identifies the areas where the risk of material misstatements in your financial statements is the highest;
- We identify areas where estimates and management judgments could have a material impact on the financial statements;
- We analyze the significance of risks we have identified and determine our procedures accordingly. For each objective, the team assigns a risk level and preliminarily determines an effective combination of tests of internal control, analytical procedures, and tests of individual transactions and balances;
- Using a structured approach, we evaluate controls in order to assess the risk of significant misstatement for each audit objective;
- We perform detailed substantive testing in relation to any audit risks that have not been mitigated by the processes and controls in place. We test selected audit objectives using substantive analytical procedures, tests of details, or a combination of the two, as well as substantive procedures directed toward any fraud risk we have identified;
- We review the financial statements and determine whether the audit evidence obtained for each audit objective reduces the risk of material misstatements in the financial statements to an acceptably low level. We form conclusions on specific topics, such as litigation and claims, and prepare a final evaluation of fraud-related matters;
- We provide year-round, continuous service to the City. We are in contact with senior management personnel throughout the year to ensure we develop a hands-on, tailored approach to the audit, and to ensure we are communicating effectively with the City.

## Understanding your Financial Reporting Risks



## Audit Response: Audit procedures for Key Financial Reporting Areas

Significant Financial Statement Caption/Note Disclosure	Financial Statement Risk	Source of Audit Evidence	
		Process	Other Substantive Procedures
Taxation revenues	Completeness Existence Accuracy Presentation		Analytical review Gross taxation revenue test
Taxes receivable	Completeness Existence Accuracy Valuation Presentation		Analytical review Aging analysis Review of subsequent receipts Allowance review
Payroll Expenditures	Completeness Existence Accuracy Presentation	Human resources / payroll controls Budget controls	Analytical review Year end reconciliation
Other Expenditures	Completeness Existence Accuracy Presentation	Procurement controls Budget controls	Analytical review

## Audit Response: Audit procedures for Key Financial Reporting Areas

Significant Financial Statement Caption/Note Disclosure	Financial Statement Risk	Source of Audit Evidence	
		Process	Other Substantive Procedures
Accounts payable and accrued liabilities	Completeness Existence Accuracy Presentation	Procurement controls Human resources / payroll controls Budget controls	Analytical review Test of details Complete a search for unrecorded liabilities
Reserves / reserve funds	Completeness Accuracy Presentation		Test of details – verify appropriate approvals
Employee future benefits	Completeness Accuracy Presentation		Confirm the amount of the associated liabilities with the actuaries.
Commitments and Contingencies	Completeness Presentation		Confirmation of litigation and claims with lawyers. Review of documentation for lease commitments and costs to complete capital projects in progress.



## Financial Statement Reporting and Materiality

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***Materiality (definition): Those qualitative and quantitative factors that are likely to change or influence the decisions of persons relying on the financial statements.***

### **Council (Audit Committee)**

- Understand management's process for identifying, communicating and correcting misstatements
- Understand management's tolerance for unadjusted material misstatements
- Monitor "tone at the top"
- Discuss corrected and uncorrected material misstatements, if any

### **Management**

- Consider quantitative and qualitative materiality factors
- Assess misstatements, individually and collectively
- Adjust all material misstatements
- Must not make intentional misstatements even if not material
- Provide written representation re immateriality, individually and collectively, of uncorrected audit differences.

### **External Auditors**

- Satisfy applicable standards and regulations
- Consider quantitative and qualitative factors, including management estimates
- Consider whether misstatements are indicative of fraud
- Communicate non-trivial misstatements to management
- Communicate to Council any uncorrected misstatements determined by management to be immaterial
- Materiality used for audit purposes:
  - Materiality for planning purposes
  - Significant misstatement threshold
  - Reporting materiality

## Use of Experts and Specialists

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Type of specialist	Reason for involvement / Audit implications
Actuary	The external auditors will rely on the actuary and their actuarial valuation to support the amounts and disclosure related to employee future benefits.
Lawyers	To ensure completeness of contingencies/valuation of contingencies.

## Proposed Audit Timetable

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<b>MILESTONE</b>	<b>DATE</b>
Planning procedures	December, 2005
Interim field work	December, 2005
Present Audit Planning Report to Council	January, 2006
Completion of the final audit procedures	May, 2006
Closing conference with management	May, 2006
Audit Findings Report with Council	May, 2006

## Maintaining Our Independence

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- We will provide Council with an annual letter regarding our independence.
- We will:
  - Disclose all relationships between us and related entities and will include all fees billed to the City since the date of our last letter
  - Confirm, that in our judgement, the Firms are independent of the City

## Current Developments and Accounting Issues

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- We regularly monitor the potential impact of new accounting and assurance pronouncements that may impact the financial statements of the City.
  
- Exposure draft and draft guidelines of section PS 3150, Tangible Capital Assets – Under Development
  - If the above changes are made, municipalities will be required to:
    - Prepare and inventory of all capital assets; and
    - Determine their depreciated value, which will require information on original costs and age of assets.
  
- PSAB is in the process of reviewing a Financial Statement Model for local governments.

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# Questions?