



# City of Greater Sudbury

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## Audit Findings Report to the Finance Committee

For the year ended December 31, 2004

## To the Finance Committee

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- We have audited the financial statements of City of Greater Sudbury as at December 31, 2004 and have issued our report thereon dated April 30, 2005. Accordingly, under Canadian generally accepted auditing standards, we are providing you with the attached information related to the conduct of our audit.
- We have conducted our audit of the financial statements in accordance with Canadian generally accepted auditing standards. We planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance in auditing is not attainable because of such factors as: the nature of audit evidence which is based on the use of testing and where much of the evidence available to the auditor is persuasive, rather than conclusive; the inherent limitations of internal control; and the characteristics of fraud. Accordingly, there is a risk that material errors, fraud, and other illegal acts may exist and not be detected by an audit performed in accordance with Canadian generally accepted auditing standards.
- An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and their application and significant estimates made by Management, evaluating the overall financial statement presentation, making specific enquiries of Management, and obtaining a supporting representation letter from Management concerning the effectiveness of internal controls and the representations embodied in the financial statements, including the notes thereto.
- The matters raised in this report are by-products of the financial statement audit and are only those matters that have come to our attention arising from our audit, and that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular, we cannot be held responsible for reporting all risks in your business or all internal control deficiencies.
- 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, 2004 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.

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## 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.
- Our audit report has been issued without reservation, dated April 30, 2005 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").
- We also wish to clarify that in planning and performing an audit, we consider internal controls to determine the nature, extent and timing of our audit procedures. However, an audit does not include examining the effectiveness of internal controls and does not provide assurance on the City's internal controls.

## 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 May 31, 2005 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.

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## 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 Audit Findings – Reconciliation of Community Reinvestment Grants (CRF)

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- Issue:
  - On March 31, 2005 the Ministry of Finance announced a new funding model – Ontario Municipal Partnership Fund
  - Ministry reconciled the 2003 and 2004 CRF grants in 2005
  - Approximately \$3.4M was cash flowed in April 2005
- Implications:
  - Should the \$3.4M be recorded as revenue in the December 31, 2004 financial statements ?
- Resolution:
  - Cabinet approval was not received until March 2005
  - Ministry did not previously confirm to Municipalities that the 2003 and 2004 CRF grants would be reconciled
  - \$3.4M was not recorded as revenue in the audited December 31, 2004 financial statements

## Significant Accounting Policies

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- Significant Accounting Policies
  - Disclosed in note 1 to the financial statements.
  - No accounting policies have been implemented or changed from the prior year.

## Management Judgements, Accounting Estimates and Disclosure

Significant Financial Statement Caption / Disclosure	Financial Reporting Risks	Significant Accounting Estimates
Taxes receivable	Valuation of taxes receivables	Allowance for doubtful taxes receivables \$2.3M  Evaluate the assessment values of properties in arrears to determine the likelihood of loss
Accrued Liabilities	Accuracy of liability	Amounts owing to other ambulance service providers - \$3.3 M  Assess reasonableness of number of trips and rates
Employee benefit obligations	Accuracy of liability and disclosure	Post-employment benefits \$28M  Assess reasonableness of managements and actuary assumptions

## Misstatements and Audit Adjustments

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- *Misstatements* represent audit findings or differences whereby we do not agree with the amount, classification, presentation or disclosure of items in the financial statements.
- All audit adjustments were reviewed with and recorded by Management.

## Matters Arising from the Audit

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- Fraudulent acts
  - CICA 5135 provides revised guidance on the auditor's responsibility to consider fraud and error in the audit
  - During the course of our audit we **did not** encounter:
    - matters that pose questions regarding the honesty and integrity of management
    - fraud involving management
    - fraud involving employees who have significant roles in internal control over financial reporting
    - 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
- Illegal acts
  - During the course of our audit, **we detected no** illegal acts or possibly illegal acts
- Responsibilities regarding internal control
  - GAAS requires that we communicate significant or material weaknesses in internal control
  - **With respect to the 2004 audit and our review of internal controls, there are no significant weaknesses in internal controls.**

## Other Matters Arising from the Audit

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- We did not encounter any serious difficulties in the performance of the audit. 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.
- We have had no disagreements with Management, and have resolved all auditing, accounting and presentation issues to our satisfaction.
- To our knowledge, Management discussed no accounting or auditing matters with other accountants.

## Performance Improvement Observation

Observation and implication for the City	Recommendation	Management comment
<p>During our review, we noted various instances where financial information originating in a department other than finance did not adequately flow to the finance department for the recording and processing of transactions. In certain instances the information was not provided until subsequent to year, thus straining the year end preparation process.</p>	<p>We recommend that departments other than finance become more accountable to the finance department for financial reporting purposes. Consideration should be given to standardizing the reporting protocol between finance and the other departments.</p>	<p>The Organization Blueprint 2007 report indicates that the review of the Finance Division will be undertaken when the new CFO is hired. The review is to include a look at centralized versus decentralized service delivery. The problems around the receipt of incomplete and late information from departments is definitely an issue that impacts on the Finance Division's ability to do its job and this issue should be considered in the context of centralized/decentralized service delivery review and direct and indirect reporting relationships to the Finance Division for finance staff in other departments.</p>