



# **City of Greater Sudbury**

## **Audit Planning Report to the Finance Committee for year ending December 31, 2006**

February, 2007

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# Purpose of the report

- Changes to auditing standards have created a new era
  - Public awareness
  - Importance of Governance and oversight groups
  - Enhanced role of the Audit Committee
  - Auditor independence and annual confirmation
  - Internal control over financial reporting / certification
  - Fraud and misstatement
  - Reporting audit differences
  - Planning and Finding Reports
- This Report is applicable for the year ending December 31, 2006 and is designed to provide overview information to the Finance Committee of the City of Greater Sudbury (the “City”) relating to the activities of your Auditors in discharging their audit responsibilities.
- This Report has been prepared solely for the use of the Finance Committee in discharging its responsibilities and should not be used for any other purposes. We disclaim any obligation to any third party who may rely upon this Report.

# Key responsibilities regarding financial reporting

## Management

- Prepare financial statements and notes in accordance with Canadian GAAP (PSAB).
- Design, implement and maintain effective internal control over financial reporting.
- Exercise sound judgment in selecting and applying critical accounting policies.
- Implement policies and procedures designed to:
  - safeguard assets
  - prevent, detect and correct errors
  - prevent and detect fraud
- Provide representations to external auditors.
- Assess quantitative and qualitative impact of misstatements discovered during the audit on the fair presentation of the financial statements.

## External Auditors

- Maintain independence. Confirm independence in accordance with relevant professional, regulatory and legislative requirements.
- Report directly to the Finance Committee.
- Conduct audit in accordance with Canadian generally accepted auditing standards.
- Conduct audit in accordance with the audit plan approved by the Finance Committee.
- Express an opinion on the consolidated financial statements.
- Communicate openly with Finance Committee and management.

## Finance Committee

- Undertake the role of the audit committee
- Monitor the culture of honesty and ethical behaviour; set the proper tone for fraud prevention.
- Be aware of the internal controls that management establishes and maintains to provide reasonable assurance regarding reliability of financial reporting.
- Review and approve the audit plan.
- Review annual financial statements and recommend approval to Council.

# Audit deliverables

## Finance Committee/ Council

- Audit Planning Report
- Audit Findings Report
- Independence letter
- Audit opinion on the consolidated financial statements of the City of Greater Sudbury
- Audit opinion on Trust Funds

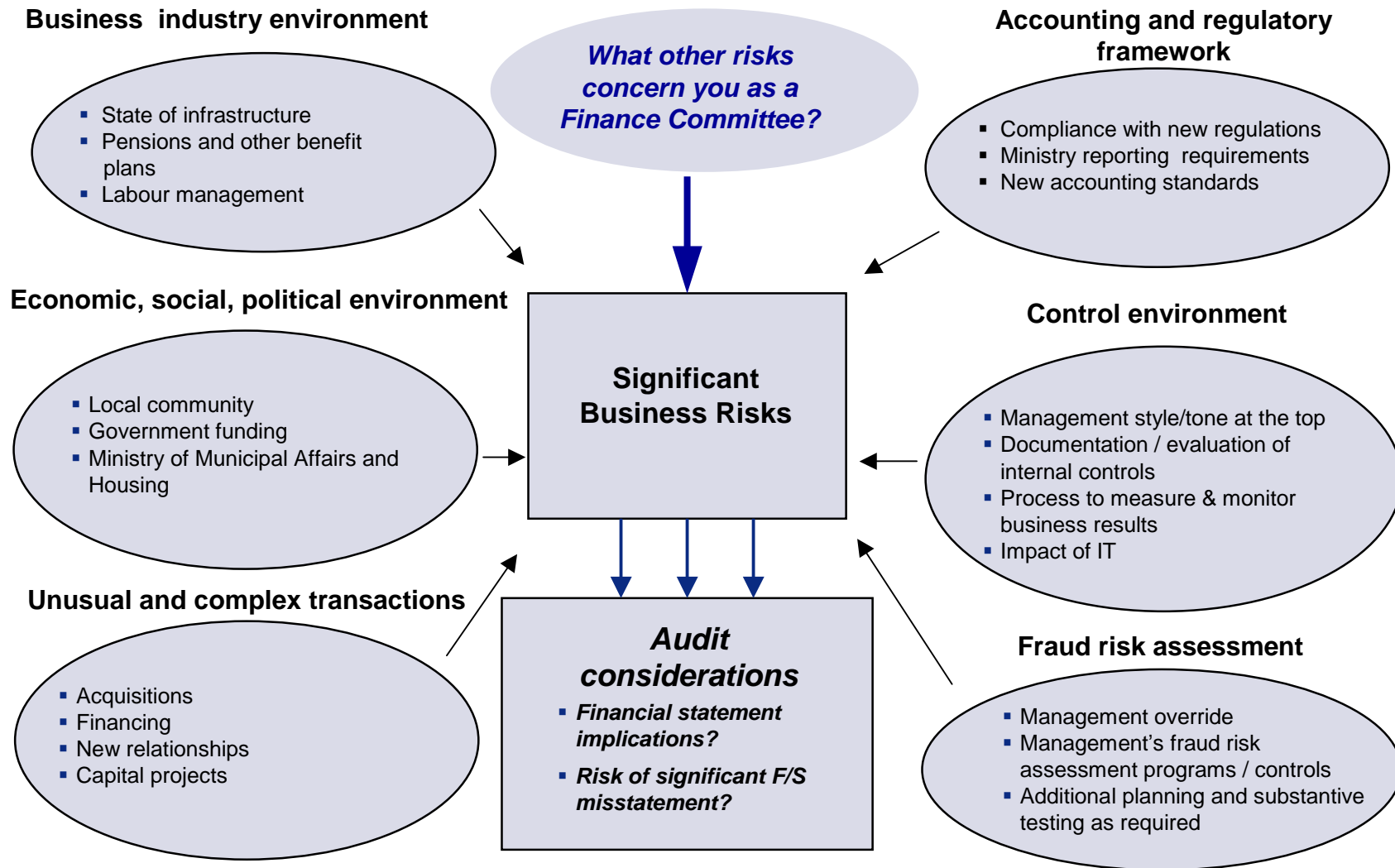
## Regulators or Other Parties

- Ministry of Municipal Affairs and Housing
  - Audited financial statements
  - Auditor’s questionnaire
- Ministry of Health and Long Term Care (Pioneer Manor)
  - Auditor’s Report on Long-Term Care Home Annual Report
  - Auditor’s Report – Statement of Trust Funds
- Association of the Municipalities of Ontario-Federal Gas Tax Revenue
  - Auditor’s report on the annual expenditures related to federal gas tax revenue

# Our Audit Process

Phase	Activities
<b>Planning</b>	<ul style="list-style-type: none"><li>• Perform risk assessment procedures, including understanding the City and its environment and identifying risks</li><li>• Determine planning materiality</li><li>• Summarize audit plan to the Finance Committee</li><li>• Evaluate the design of entity level controls</li></ul>
<b>Control evaluation</b>	<ul style="list-style-type: none"><li>• Understand accounting and reporting activities, identify risk points and controls</li><li>• Perform walkthroughs</li><li>• Evaluate design and implementation of selected controls, including IT general controls</li><li>• Test operating effectiveness of selected controls, including IT general controls</li></ul>
<b>Substantive testing</b>	<ul style="list-style-type: none"><li>• Plan and perform substantive procedures comprised of tests of details and substantive analytical procedures</li><li>• Evaluate audit differences</li><li>• Consider if audit evidence is sufficient and appropriate</li><li>• Conclude on significant accounting matters</li></ul>
<b>Completion</b>	<ul style="list-style-type: none"><li>• Perform completion procedures</li><li>• Perform overall evaluation of the financial statements and disclosures</li><li>• Obtain management representations</li><li>• Form audit opinions</li><li>• Communicate with Finance Committee</li></ul>

# 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 (internal controls will be tested)	Other Substantive Procedures
Taxation revenues	Completeness Existence Accuracy Presentation	N/A	Analytical review Gross taxation revenue test
Grants and subsidies	Completeness Existence Accuracy Presentation	N/A	Analytical review Confirm grants and subsidies Year end reconciliation
Taxes receivable	Completeness Existence Accuracy Valuation Presentation	N/A	Analytical review Aging analysis Review of subsequent receipts Allowance review
Operating and capital expenditures (including payroll)	Completeness Existence Accuracy Presentation	Procurement controls Human resources / payroll controls Budget controls	Analytical review Year end reconciliation



# Audit response: Audit procedures for key financial reporting areas

Significant Financial Statement Caption/Note Disclosure	Financial Statement Risk	Source of Audit Evidence	
		Process (internal controls will be tested)	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	N/A	Test of details – verify appropriate approvals
Employee future benefits and landfill liability	Completeness Accuracy Presentation	N/A	Confirm the amount of the associated liabilities with the actuaries and other specialists.
Commitments and Contingencies	Completeness Presentation	N/A	Confirmation of litigation and claims with lawyers. Review of documentation for lease commitments and costs to complete capital projects in progress.

# Planning Materiality

Materiality (definition): **A misstatement in the financial statements that is likely to change or influence the decisions of persons relying on the financial statements. Materiality takes into account both quantitative and qualitative factors.**

## Management

- Consider quantitative and qualitative materiality factors
- Assess misstatements, individually and collectively
- Correct 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

- Understand management's process for identifying, communicating and correcting misstatements
- Consider whether misstatements are indicative of fraud
- Recommend management correct all material misstatements
- Communicate non-trivial misstatements, corrected and uncorrected, to management and the Finance Committee

## Finance Committee

- Understand management's process for identifying, communicating and correcting misstatements
- Understand management's tolerance for uncorrected misstatements
- Monitor "tone at the top"
- Discuss corrected and uncorrected misstatements
- Encourage management to correct all misstatements

# *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 the City of Greater Sudbury in the 2006 audit**

- Materiality for planning purposes has been established for both the operating fund and the capital fund.

## **Reporting materiality**

- Reporting materiality is the threshold we use to determine whether corrections must be made at the completion of the audit.
- As part of our Audit Findings Report, we will communicate to you all corrected misstatements identified by us during the audit as well as uncorrected misstatements identified by us during the audit that management has determined to be immaterial.
- At that time, we will discuss with you the reporting materiality for the City.

## Use of Experts and Specialists

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

## Proposed Audit Timetable

<b>MILESTONE</b>	<b>DATE</b>
Planning procedures	December, 2006
Interim field work	December, 2006
Present Audit Planning Report to Council	February, 2007
Completion of the final audit procedures	April, 2007
Closing conference with management	May, 2007
Audit Findings Report with Council	May, 2007

## Maintaining Our Independence

- 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 Municipality since the date of our last letter
  - Confirm, that in our judgement, the Firms are independent of the Municipality

# Current Developments and Accounting Issues

There are significant changes pending to the accounting and disclosure for Municipalities.

## NEW STANDARDS

- PS 2700 – Segmented Disclosures – implementation date December 31, 2008
- PS 3150 – Tangible Capital Assets – implementation date December 31, 2009
- New Reporting Model which encompasses
  - PS 1000 – Financial Statement Concepts
  - PS 1100 – Financial Statement Objectives
  - PS 1200 – Financial Statement Presentation
  - Implementation date December 31, 2009

## PROJECTS UNDERWAY

- - Exposure draft – Government Transfers
  - Expected implementation date December 31, 2009

Other

***Questions ?***