



City of Greater Sudbury

Audit Planning Report

Year ended December 31, 2004

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Purpose of Report

- Recent 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, 2004 and is designed to provide overview information to the Audit Committee (in this case the Finance Committee due to the absence of an Audit 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.

Audit deliverables

Council and Ratepayers

Audit opinion on the financial statements

Other Users

Ministry of Municipal Affairs and
Housing
Financial Institutions

Finance Committee

Audit Planning Report
Audit Findings Report
Independence Letter

Key Responsibilities regarding Financial Statement Reporting

Management

- Prepare financial statements and notes, in accordance with Canadian GAAP
- 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
- 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



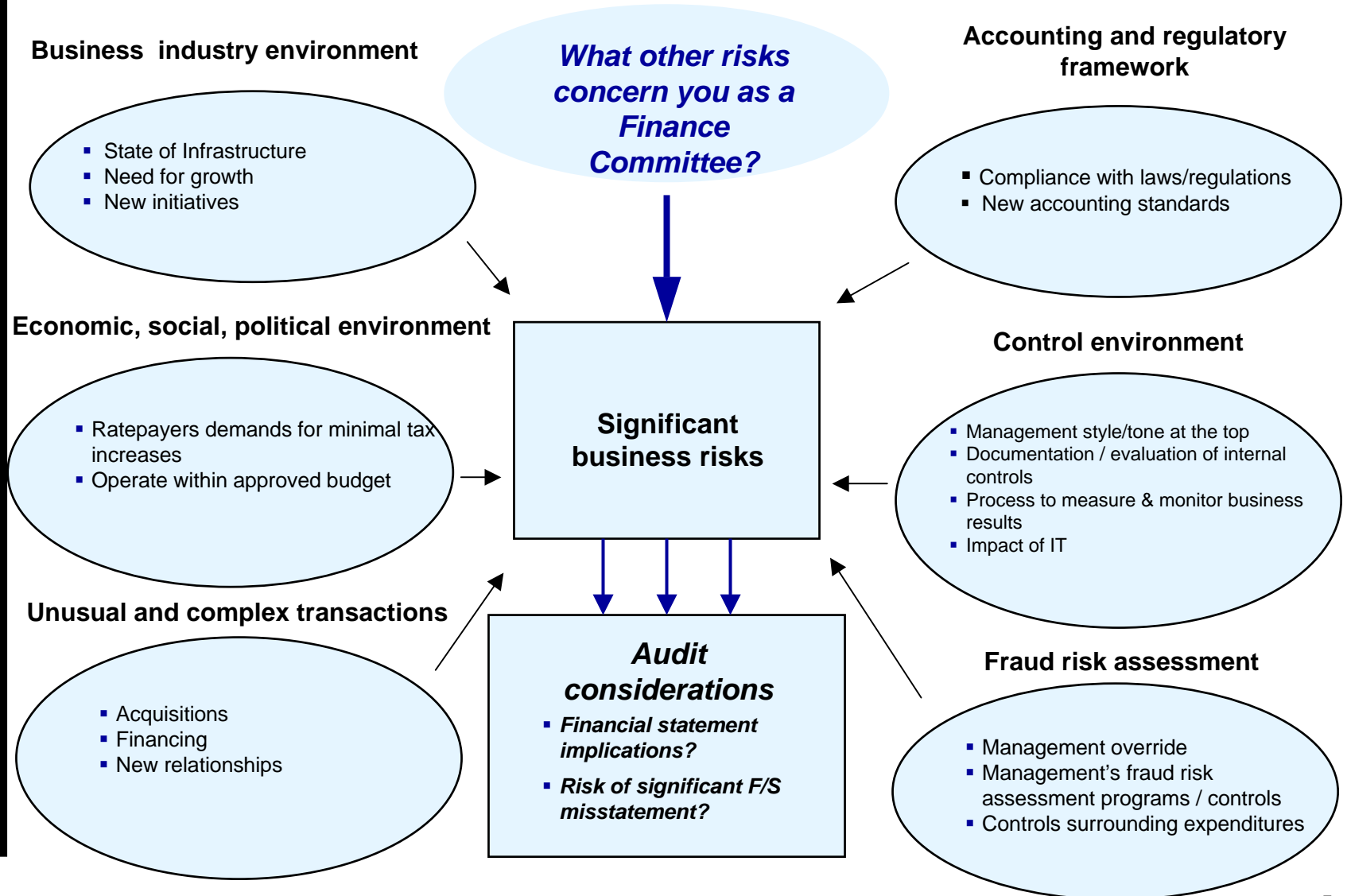
External Auditors

- 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

Finance Committee/ Audit Committee

- Provide oversight; challenge and influence – “Tone at the Top”
- Oversee the control environment and reporting process and encourage continual improvement
- Review and approve annual financial statements
- Meet with management and external auditor to discuss annual financial statements and effectiveness of internal controls
- Meet with internal auditors to discuss the effectiveness of internal controls
- Discuss with the auditors and approve the audit plan

Understanding your financial reporting risks



Audit Scope

We have been engaged to provide the City with the following services:

- An independent audit
- As a by-product, deliver a report that summarizes the significant findings of our audit. We will also report on significant weaknesses in the systems of internal controls which come to our attention and recommend and follow up on corrective action.
- Other audit, audit related and non-audit services requested from time to time such as (but not limited to):
 - advice and consultation on accounting and financial reporting matters
 - consultation on other management issues as required
 - GST review
 - Negotiation assistance
 - Proposal development
 - Sounding board for complex issues
 - Economic development matters
 - Operational issues

Independence

- We confirm that we are objective within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.
- There are no relationships that, in our professional judgment, may reasonably be thought to bear on our independence as your auditors.
- We will communicate any significant new matters at the time a relationship is established or the matter is first identified. At the completion of our audit, we will reconfirm our independence.
- Safeguards regarding our continued independence
 - We communicate with management and the audit committee, at least annually, matters relating to our independence.

Audit Methodology

Our Audit Methodology focuses on:

- identifying the business risks that may have a significant impact on the financial statements
- obtaining an understanding of the City's processes for managing these business risks, and the processes and controls in place for developing accounting estimates recorded in the financial statements
- obtaining an understanding of the significant classes of transactions and how the City processes them through to their inclusion in the financial statements
- applying our knowledge of the City and municipalities to develop expectations about *assertions* embodied in the financial statements and comparing reported financial results to our expectations
- ensuring that our client service staff work together
- providing year-round, continuous service. We are in contact with senior management personnel throughout the year to ensure we develop a hands-on, tailored approach and communicate effectively with management and Finance Committee.

Audit Methodology (Continued)

Understanding key business processes

- Purchasing, payables and expenditures (including capital)
- Payroll
- Taxation revenue
- Government transfers
- User charges
- Reserves, reserve fund transactions

Key audit procedures to be performed:

- Documentation of key processes and related internal control procedures
- Testing of key internal controls
- Substantive testing such as confirmations, examination of supporting documentation
- Overall analytical review for items on statements of financial position and activities

Audit Methodology (continued)

Materiality:

- An audit is planned with the objective of having reasonable assurance of detecting misstatements that would be individually or in the aggregate material to the financial statements taken as a whole.
- For planning purposes materiality essentially is the “sieve” we use to identify where audit work is required and determine the extent of required work.
- Planning materiality:
 - Overall materiality for planning purposes is established
 - Testing of balance sheet and income statement items are determined based on a percentage of the materiality for planning purposes
 - Minimum threshold for audit differences is established
- Qualitative factors relevant to our consideration may include, but are not limited to, the following:
 - potential effect of the misstatement on trends
 - significance of the financial statement item affected by the misstatement
 - effects of misclassifications
 - motivation of management to misstate intentionally in order to ‘manage’ operating results.
- At the completion of the audit, we obtain management’s written representation that the effect of uncorrected financial statement misstatements aggregated by us, during the audit, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Schedule

MILESTONE	DATE
Planning procedures	November, 2004
Interim field work	December, 2004
Completion of the final audit procedures	May, 2005
Closing conference with management	May, 2005
Audit Findings Report with Council	June, 2005

Current Developments and accounting issues

- We regularly monitor the potential impact of new accounting and assurance pronouncements that may impact the financial statements of the City.

HB 5135, Auditor's Responsibility to Consider Fraud and Error

- In April, 2004 the AASB approved revisions to HB 5135. The revisions to this section were made with the objective of improving the likelihood that auditors will detect fraud that result in material misstatement in the financial statement.

PSAB 1300 Financial Reporting Entity

- Must be implemented by December 31,2006. Originally PSAB considered a two part test to determine if an organization should be included in the definition of the reporting entity. It was based on accountability, ownership and control. The revised section changes the definition to one of **control** only. Where control is the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities.

Questions?