



AUDIT COMMITTEE AGENDA

Audit Committee Meeting
Tuesday, October 24, 2017
Council Chamber, Tom Davies Square

COUNCILLOR DEB MCINTOSH, CHAIR

Mike Jakubo, Vice-Chair

4:00 p.m. AUDIT COMMITTEE MEETING
COUNCIL CHAMBER

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DECLARATIONS OF PECUNIARY INTEREST AND THE GENERAL NATURE THEREOF

PRESENTATIONS

1. Report dated September 20, 2017 from the Executive Director of Finance, Assets and Fleet regarding 2017 External Audit Planning Report. **4 - 26**
(ELECTRONIC PRESENTATION) (RESOLUTION PREPARED)
 - Oscar Poloni, Partner, KPMG LLP

(The City of Greater Sudbury's Auditors will be presenting the External Audit Planning Report with respect to the 2017 year-end. The purpose of the presentation is to provide information to the Audit Committee relating to the activities of the City External Auditors in discharging their audit responsibilities.)

MANAGERS' REPORTS

- R-1. Report dated October 5, 2017 from the Auditor General regarding Annual Status Report on Wrongdoing Hotline. **27 - 38**
(RESOLUTION PREPARED)

(This report provides the annual status on on the wrongdoing hotline as at the end of May 2017.)
- R-2. Performance Audit Report of Capital Budgeting Process **39 - 49**
(REPORT TO FOLLOW)

(This report provides information on the performance Audit of the Capital Budgeting Process.)

ADDENDUM

CIVIC PETITIONS

QUESTION PERIOD AND ANNOUNCEMENTS

NOTICES OF MOTION

ADJOURNMENT

Request for Decision

2017 External Audit Planning Report

Presented To:	Audit Committee
Presented:	Tuesday, Oct 24, 2017
Report Date	Wednesday, Sep 20, 2017
Type:	Presentations

Resolution

THAT the City of Greater Sudbury approves the 2017 External Audit Plan as outlined in the report dated October 24, 2017 from KPMG LLP.

Relationship to the Strategic Plan / Health Impact Assessment

This report refers to Responsive, Fiscally Prudent, Open Governance: Focus on openness, transparency and accountability in everything we do.

Report Summary

The audit planning report contains audit areas and systems that will be reviewed during the external audit, the audit approach and details relating to scope and timing of the audit.

Financial Implications

There are no financial implications.

Signed By

Report Prepared By

Christina Dempsey
Co-ordinator of Accounting
Digitally Signed Sep 20, 17

Manager Review

Lorraine Laplante
Manager of Accounting
Digitally Signed Oct 3, 17

Division Review

Ed Stankiewicz
Executive Director of Finance, Assets and Fleet
Digitally Signed Oct 3, 17

Financial Implications

Apryl Lukezic
Co-ordinator of Budgets
Digitally Signed Oct 3, 17

Recommended by the Department

Kevin Fowke
General Manager of Corporate Services
Digitally Signed Oct 9, 17

Recommended by the C.A.O.

Ed Archer
Chief Administrative Officer
Digitally Signed Oct 11, 17

Background

In accordance with generally accepted auditing standards, an annual audit plan must be approved by the Audit Committee. The objective of the audit plan is to identify audit areas and systems that will be reviewed during the external audit, explain the audit approach to be used, provide information with respect to the scope and timing of the audit and identify specific issues for the year under review.

Our external auditors will be presenting an over view of their External Audit Planning Report with respect to the 2017 year-end. The full External Audit Planning Report is attached.

Oscar Poloni from KPMG will be presenting the External Audit Planning Report. The purpose of the presentation is to provide information to the Audit Committee relating to the activities of the City External Auditors in discharging their audit responsibilities.



City of Greater Sudbury

Audit Planning Report For the year ending December 31, 2017

October 24, 2017

kpmg.ca/audit



The contacts at KPMG in connection with this report are:

Oscar Poloni, CPA, CA, CBV
Lead Audit Engagement
Partner

Tel: 705.669.2515
opoloni@kpmg.ca

Michael Andrighetti, CPA, CA
Audit Senior Manager

Tel: 705.669.2511
mandrighetti@kpmg.ca

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At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours**.

Executive summary

Audit and business risk

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- Key management estimates
- Provision for assessment appeals
- Revenue recognition
- Capital additions

See pages 4 - 6

KPMG team

The KPMG team will be led by Oscar Poloni. He will be supported by local resources from KPMG's Sudbury office, as well as support from KPMG's National firm as required.

Effective communication

We are committed to transparent and thorough reporting of issues to City management and the Audit Committee. We have planned our work to closely co-ordinate and communicate with KPMG partners and offices.

See Appendix 3

Audit Materiality

Materiality has been determined based on total revenues. We have determined materiality for planning purposes to be \$11.1 million for the year ending December 31, 2017.

See page 7

Independence

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow Audit Committee approved protocols.

Current developments

Please refer to Appendix 6 for relevant accounting and/or auditing changes relevant to the City.

This Audit Planning Report should not be used for any other purpose or by anyone other than the Audit Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Planning Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Audit approach

Inherent risk is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

Our assessment of inherent risk is based on various factors, including the size of the balance, its inherent complexity, the level of uncertainty in measurements, as well as significant external market factors or those particular to the internal environment of the entity.

Significant financial reporting risks	Why	Our audit approach
Key management estimates	The City's financial statements include a number of liabilities such as employee benefit obligations, liabilities for contaminated sites, and solid waste management facility liability that are determined based on management estimates.	<ul style="list-style-type: none"> Assess the reasonableness of the underlying assumptions supporting the management estimate, including the accuracy of data used in the development of the estimate Determine the qualifications of management experts used to assist in the quantification of the estimates Review management estimates developed in the past in comparison to actual results
Provision for assessment appeals	The City is subject to a number of property assessment appeals which may result in refunds of taxes paid in prior periods.	<ul style="list-style-type: none"> Assess management's approach to determining the potential exposure for properties under appeal, including the underlying assumptions and data used Consider alternate sources of information, most notably information provided by the OPTA tax system Determine the qualifications of management experts used to assist in the quantification of the estimates Review management estimates developed in the past in comparison to actual results
Revenue recognition	The City is in receipt of funding that may be restricted in terms of use based on the amount of expenditures incurred or other considerations	<ul style="list-style-type: none"> Review funding agreements and other documentation to determine revenue recognition criteria Compare revenue recognized to expenditures incurred to assess the reasonableness of management's revenue recognition Review subsequent receipts to confirm the appropriateness of revenue recognized
Capital additions	Expenditures may be inappropriately classified depending on whether they meet the test of a betterment	<ul style="list-style-type: none"> Test capital additions and assess whether the requirements for capitalization have been met Test repair and maintenance and other relevant operating expenditures to determine if betterments have been expenses as opposed to capitalized

Audit approach

Professional standards presume the risk of fraudulent revenue recognition and the risk of management override of controls exist in all companies.

The risk of fraudulent recognition can be rebutted, but the risk of management override of control cannot, since management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Professional requirements	Why	Our audit approach
Fraud risk from revenue recognition	This is a presumed fraud risk. Management may attempt to achieve certain financial results by overstating revenues.	<ul style="list-style-type: none"> – Reviewing revenue recognition for conditional funding sources – Reviewing year-end accruals for user fees and other revenues to determine whether revenue has been overstated – Testing journal entries to identify transactions intended to overstate revenues
Fraud risk from management override of controls	This is a presumed fraud risk.	As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

Audit approach

Other areas of focus
include reputational risk.

Other areas of focus	Why	Our audit approach
Compliance with established procurement policies	A potential exposure to reputational risk may exist if the City has procured goods or services in contravention of its established policies and procedures.	<ul style="list-style-type: none"> – Review the system of management controls over procurement as a means of assessing the potential risk of non-compliance with procurement policies – Test a sample of procurements in order to assess: <ul style="list-style-type: none"> – Compliance with designated approval authorities – Compliance with requirement for competitive procurement – Overall execution of procurement process and whether fairness concerns are identified
Compliance with established travel and expense reimbursement policies	A potential exposure to reputational risk may exist if City staff and/or elected officials have contravened travel and expense reimbursement policies	<ul style="list-style-type: none"> – Review the system of management controls over travel and expense reimbursement as a means of assessing the potential risk of non-compliance with established policies – Test a sample of travel costs and expense reports for staff and Council in order to assess: <ul style="list-style-type: none"> – Compliance with designated approval authorities – Compliance with City policy with respect to acceptable expenditures
LEAN in Audit	LEAN is a methodology for evaluating and enhancing the effectiveness and efficiency of internal processes.	<ul style="list-style-type: none"> – Conduct a value stream mapping exercise of two financial processing transaction streams

Materiality

Professional standards require us to re-assess materiality at the completion of our audit based on period-end results or new information in order to confirm whether the amount determined for planning purposes remains appropriate.

Our assessment of misstatements, if any, in amounts or disclosures at the completion of our audit will include the consideration of both quantitative and qualitative factors.

The first step is the determination of the amounts used for planning purposes as follows.

The determination of materiality requires professional judgment and is based on a combination of quantitative and qualitative assessments including the nature of account balances and financial statement disclosures.

Materiality determination	Comments	Amount
Metrics	Revenue	
Benchmark	Prior year's revenue	\$556 million
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The prior year's materiality was \$11.0 million.	\$11.1 million
% of Benchmark	The corresponding percentage for the prior year's audit was 2%.	2%
Performance materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures.	\$8.3 million
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The prior year's AMPT was \$550,000.	\$550,000

Our team

Team member	Background / experience	Discussion of role
Oscar Poloni Lead Audit Engagement Partner	<ul style="list-style-type: none"> Office Managing Partner for KPMG's Northern Ontario business unit 26 years of public accounting experience 	<ul style="list-style-type: none"> Oscar will lead our audit for the City and be responsible for the quality and timeliness of everything we do. He will often be onsite with the team and will always be available and accessible to you.
Derek D'Angelo Engagement Quality Control Reviewer	<ul style="list-style-type: none"> Northern Ontario professional practice partner 25 years of public accounting experience 	<ul style="list-style-type: none"> Derek will provide quality review for financial statements Derek will be available as an alternate to Oscar as required
Mike Andrighetti Audit Senior Manager	<ul style="list-style-type: none"> Senior manager with extensive municipal experience Nine years of public sector experience 	<ul style="list-style-type: none"> Mike will work very closely with Oscar on all aspects of our audit for the City. He will be on site and directly oversee and manage our audit field team and work closely your management team.
Kevin Kolliniatis IT Audit and Statistical Sampling Specialist	<ul style="list-style-type: none"> Canadian lead for statistical sampling and data and analytics 	<ul style="list-style-type: none"> Design of data and analytics procedures Assistance with execution of data and analytics procedures

Value for fees

In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above. Our fee analysis is consistent with our proposal to the City.

Our fees are estimated as follows:

	Current period (budget)	Prior period (actual)
Audit of the annual financial statements	\$90,000	\$87,000

Matters that could impact our fee

The proposed fees outlined above are based on the assumptions described in the engagement letter.

The critical assumptions, and factors that cause a change in our fees, include:

- Significant changes in the nature or size of the operations of the City beyond those contemplated in our planning processes;
- Changes in professional standards or requirements arising as a result of changes in professional standards or the interpretation thereof; and
- Changes in the time of our work.

Audit cycle and timetable

Our key activities during the year are designed to achieve our one principal objective:

To provide a robust audit, efficiently delivered by a high quality team focused on key issues.

October/November

- Initial planning meeting with City staff
- Presentation of audit planning report

November

- Interim audit
- Meeting with City staff to discuss interim audit results

April/May

- Year-end audit fieldwork

July/August

- Debrief meeting with City staff

June

- Issue audit opinion and supplementary reports
- Present audit findings report



Appendices

Appendix 1: Audit quality and risk management

Appendix 2: KPMG's audit approach and methodology

Appendix 3: Required communications

Appendix 4: Data & analytics in audit

Appendix 5: Lean in Audit™

Appendix 6: Current Developments

Appendix 1: Audit quality and risk management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit our [Audit Quality Resources](#) page for more information including access to our audit quality report, [Audit quality: Our hands-on process](#).

- Other controls include:
 - Before the firm issues its audit report, Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
 - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.



- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.
- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
 - Assignment based on skills and experience;
 - Rotation of partners;
 - Performance evaluation;
 - Development and training; and
 - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 2: KPMG's audit approach and methodology

Technology-enabled audit workflow (eAudit)

Engagement Setup

- Tailor the eAudit workflow to your circumstances
- Access global knowledge specific to your industry
- Team selection and timetable

Completion

- Tailor the eAudit workflow to your circumstances
- Update risk assessment
- Perform completion procedures and overall evaluation of results and financial statements
- Form and issue audit opinion on financial statements
- Obtain written representation from management
- Required Audit Committee communications
- Debrief audit process



Risk Assessment

- Tailor the eAudit workflow to your circumstances
- Understand your business and financial processes
- Identify significant risks
- Plan the use of KPMG specialists and others including auditor's external experts, management experts, internal auditors, service organizations auditors and component auditors
- Determine audit approach
- Evaluate design and implementation of internal controls (as required or considered necessary)

Testing

- Tailor the eAudit workflow to your circumstances
- Perform tests of operating effectiveness of internal controls (as required or considered necessary)
- Perform substantive tests

Appendix 3: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of our audit. These include:

- **Engagement letter** – the objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement. In accordance with professional standards, copies of the engagement letter and any subsequent amendments will be provided to the Audit Committee annually.
- **Audit planning report** – as attached
- **Required inquiries** – professional standards require that during the planning of our audit we obtain your views on risk of fraud and other matters. We make similar inquiries to management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly
- **Management representation letter** – we will obtain from management certain representations at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Audit Committee
- **Audit findings report** – at the completion of our audit, we will provide a report to the Audit Committee

Appendix 4: Data & analytics in audit

Turning data into value

KPMG continues to make significant investments in our Data & Analytics (D&A) capabilities to help enhance audit quality and provide actionable insight to our clients by unlocking the rich information that businesses hold.

When D&A is applied to the audit, it enables us to test complete data populations and understand the business reasons behind outliers and anomalies.

Advancements in D&A tools allow us to analyze data at more granular levels, focusing on higher risk areas of the audit and developing insights you can then leverage to improve compliance, potentially uncover fraud, manage risk and more.

KPMG is enhancing the audit

The combination of our proven industry experience, technical know-how and external data allows us to focus our audit on the key business risks, while providing relevant insights of value to you.

For the audit

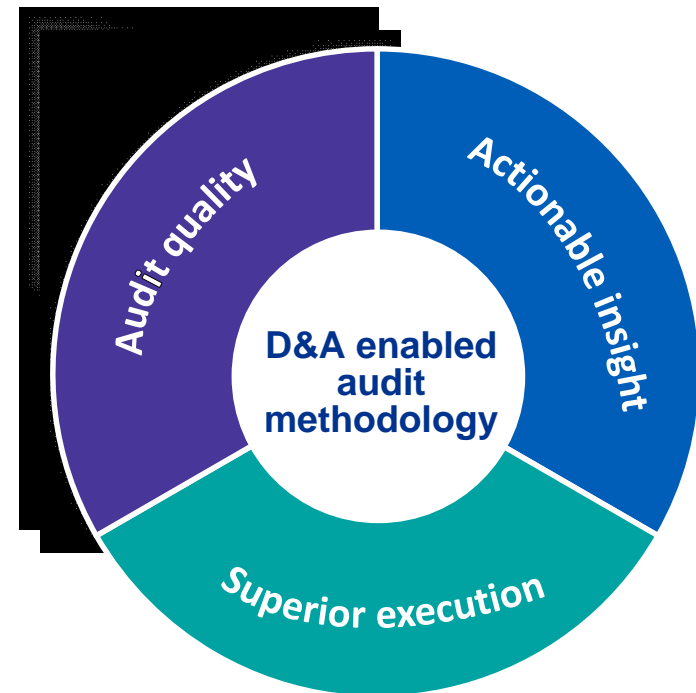
Audit quality

- Automated testing of 100% of the population
- Focuses manual audit effort on key exceptions and identified risk areas

For your business

Actionable insight

- Helping you see your business from a different perspective
- How effectively is your organization using your systems?



Appendix 5: Lean in Audit™

An innovative approach leading to enhanced value and quality

Our new innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process-oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and yourselves. For example, we may identify control gaps and potential process improvement areas, while companies have the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.

How it works

Lean in Audit employs three key Lean techniques:

1. End-to-end process mapping

- This is a workshop-based approach involving those who actually deliver the process, resulting in a shared, detailed understanding of the process and of client-identified areas of opportunity

2. Visual management

- Providing transparent, real-time reporting ensures a shared understanding of audit priorities, progress and any risks or issues that should be managed, resulting in a more productive, project-led approach that supports client and KPMG efficiencies.

3. Quality and value-mindset

- New capabilities allow audit teams to deliver deeper insights and focus on quality and value.

Appendix 6: Current developments

The following is a summary of the current developments that are relevant to the Council.

Standard	Summary and implications
PS 3210 - Assets	<p>This standard provides a definition of assets and further expands that definition as it relates to control.</p> <p>Assets are defined as follows:</p> <ul style="list-style-type: none"> — They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows. — The public sector entity can control the economic resource and access to the future economic benefits. — The transaction or event giving rise to the public sector entity's control has already occurred. <p>The standard also includes some disclosure requirements related to economic resources that are not recorded as assets to provide the user with better information about the types of resources available to the public section entity.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017</p>
PS 3380 – Contractual Rights	<p>This standard defines contractual rights to future assets and revenue.</p> <p>Information about a public sector entity's contractual rights should be disclosed in notes or schedules to the financial statements and should include descriptions about their nature and extent and the timing. The standard also indicates that the exercise of professional judgment would be required when determining contractual rights that would be disclosed. Factors to consider include, but are not limited to:</p> <ul style="list-style-type: none"> (a) contractual rights to revenue that are abnormal in relation to the financial position or usual business operations; and (b) contractual rights that will govern the level of certain type of revenue for a considerable period into the future. <p>This standard is effective for fiscal periods beginning on or after April 1, 2017</p>

Standard	Summary and implications
PS 3320 – Contingent Assets	<p>This standard defines contingent assets.</p> <p>They have two basis characteristics:</p> <ul style="list-style-type: none"> – An existing condition or situation that is unresolved at the financial statement date. – An expected future event that will resolve the uncertainty as to whether an asset exists. <p>The standard also has specific disclosure requirements for contingent assets when the occurrence of the confirming event is likely.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017</p>
PS 2200 Related Party Disclosures	<p>This standard relates to related party disclosures and defines related parties. Related parties could be either an entity or an individual. Related parties exist when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties.</p> <p>Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. Material financial impact would be based on an assessment of the terms and conditions underlying the transaction, the financial materiality of the transaction, the relevance of the information and the need for the information to enable the users to understand the financial statements and make comparisons.</p> <p>This standard also specifies the information required to be disclosed including the type of transactions, amounts classified by financial statement category, the basis of measurement, and the amounts of any outstanding items, any contractual obligations and any contingent liabilities. The standard also requires disclosure of related party transactions that have occurred where no amounts has been recognized.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017</p>
PS 3430 Restructuring Transactions	<p>A restructuring transaction in the public sector differs from an acquisition as they generally include either no or nominal payment. It also differs from a government transfer as the recipient would be required to assume the related program or operating responsibility.</p> <p>The standard requires that assets and liabilities are to be measured at their carrying amount. It also prescribes financial statement presentation and disclosure requirements.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2018</p>

Standard	Summary and implications
PS 3420 Inter-entity Transactions	<p>This standard relates to the measurement of related party transactions and includes a decision tree to support the standard.</p> <p>Transactions are recorded a carrying amounts with the exception of the following:</p> <ul style="list-style-type: none"> – In the normal course of business – use exchange amount – Fair value consideration – use exchange amount – No or nominal amount – provider to use carrying amount; recipient choice of either carrying amount or fair value. – Cost allocation – use exchange amount <p>This standard is effective for fiscal periods beginning on or after April 1, 2017</p>
Standard of Financial Instruments	<p>A standard has been issued, establishing a standard on accounting for and reporting all types of financial instruments including derivatives. The effective date of this standard has recently been deferred and it is now effective for fiscal periods beginning on or after April 1, 2019</p> <p>Implications: This standard will require the City to identify any contracts that have embedded derivatives and recognize these on the consolidated statement of financial position at fair value. Portfolio investments in equity instruments are required to be recorded at fair value. Changes in fair value will be reported in a new financial statement – statement of remeasurement gains and losses. This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the Board. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type. The risks to be considered include credit, currency, interest rate, liquidity, and market risk.</p>
Revised Standard on Foreign Currency Translation	<p>A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency.</p> <p>The effective date of this standard has been deferred and is effective for fiscal periods beginning on or after April 1, 2019. Earlier adoption is permitted. An entity early adopting this standard must also adopt the new financial instruments standard.</p> <p>Implications: Exchange gains and losses arising prior to settlement are recognized in a new statement of remeasurement gains and losses.</p>
Asset Retirement Obligations	<p>The standard for Asset Retirement Obligations is currently under revision and an exposure draft has been issued. As such, there is currently no effective date.</p> <p>Implications: This draft will replace section PS3270 which includes solid waste landfill closure and post-closure liabilities. This proposes similar accounting treatment to the asset retirement obligation within the not-for-profit handbook. The statement of principals relates to retirement obligations that are associated with tangible capital assets and would be based on an agreement contract, legislation or constructive or equitable obligation. The statement of principles proposes that the cost would be recorded as part of the related tangible capital assets. Any change in measurement would be adjusted to tangible capital assets. These costs would be expensed consistent with the related tangible capital asset. Recoveries are not netter against the liability and the best estimate method is used and generally the present value technique is the best available method. Retirement obligations include post-retirement operation, maintenance and monitoring.</p>

PS 3250 Retirement Benefits & PS 3255 Post Employment Benefits	<p>The standards for Employee Future Benefits is being taken under consideration with a proposal to replace both sections with a single comprehensive section. As such, there is currently no effective date.</p> <p>The plan is to divide the consideration into two separate stages: 1) Appropriateness of deferral of changes in benefit obligation and plan assets, alternatives of recognizing gains and losses and alternatives for valuation of plan assets 2) Key issues including shared risk plans, multi-employer defined benefit plans, vested sick leave benefits and discount rates.</p>

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Presented To:	Audit Committee
Presented:	Tuesday, Oct 24, 2017
Report Date	Thursday, Oct 05, 2017
Type:	Managers' Reports

Request for Decision

Annual Status Report on Wrongdoing Hotline

Resolution

THAT the City of Greater Sudbury endorses the recommendation as outlined in the report entitled "Annual Status Report on Wrongdoing Hotline" from the Auditor General, presented at the Audit Committee meeting on October 24, 2017.

Signed By

Auditor General
Ron Foster
Auditor General
Digitally Signed Oct 5, 17

Relationship to the Strategic Plan / Health Impact Assessment

Providing semi-annual reports on the wrongdoing hotline supports the strategic goal of establishing responsive, fiscally prudent, open governance. It also demonstrates the City's focus on openness, transparency and accountability in everything we do.

Report Summary

This report summarizes Hotline activities and provides information on the nature, status and disposition of specific complaints/allegations received between June 1 to December 31, 2016 as well as between January 1, 2017 to May 31, 2017 and for the year ended May 31, 2017. It also provides one recommendation to improve the effectiveness of Hotline support activities.

Financial Implications

The report recommends that the Auditor General's Reserve be used to fund the costs for investigations of systemic or serious complaints about members of Council. The reserve has sufficient funding to cover the costs for external investigators for several years.

Annual Status Report on the Wrongdoing Hotline

12-Month Period Ended
May 31, 2017



SUMMARY

The 'Wrongdoing Hotline' was introduced on June 1, 2016, for citizens, employees and contractors to report complaints/allegations that could be deemed illegal, dishonest, wasteful or a deliberate violation of city policy.

This report summarizes Hotline activities and provides information on the nature, status and disposition of specific complaints/allegations received between June 1, 2016 and May 31, 2017.

Only 12 percent (19 of 156) of the complaints received required actions to be taken which is typical for municipalities that have recently implemented hotlines.

The next status report on the Wrongdoing Hotline will be provided to Audit Committee in January 2018.

OBSERVATIONS

1. Management of Complaints

The volume of complaints has been higher than anticipated due to some confusion about the purpose of the Wrongdoing Hotline. Many of the complaints received can be addressed under the City's 311 service or processes for staffing issues.

To address this observation, the Auditor General and General Manager of Corporate Services will coordinate a communications effort to clarify the purpose and scope of the hotline on the wrongdoing website page and to update the script for the telephone hotline.

2. Cost of Complaint Handling Process

Excluding the start-up costs, the cost for staff members to review and investigate wrongdoing complaints during the year was approximately \$25,000. The City also incurred costs of \$23,137 to engage external contractors to provide independent reviews of sensitive complaints.

While allegations of wrongdoing are investigated as thoroughly and quickly as possible, investigating some complaints can be disruptive as they can be of great concern to both individuals and groups of staff.

3. Complaint Backlog

A backlog consisting of 35 unresolved complaints existed at the end of May 2017. As at the end of September, this backlog had been reduced to 4 complaints that had been received at the end of May.

The backlog is being monitored by the Auditor General and the General Manager of Corporate Services. If the volume grows, steps will be taken to resolve the backlog on a timely basis.

4. Investigation Process for Members of Council

A number of complaints have been filed regarding the conduct of an individual member of Council.

Recommendation:

Systemic or serious complaints about members of Council should be contracted out for investigation. The Auditor General's Reserve can be used to fund these investigations.

Mayor's Response:

Thank you for providing the Mayor's Office and Council with recommendations relating to systematic or serious complaints about a member of Council. I am in agreement that systematic or serious complaints should be contracted out for investigation to allow for an unbiased, third party review and to provide advice to City of Greater Sudbury Council.

As the Auditor General reports to the Audit Committee, I would be supportive of this committee making a final decision on how to proceed on this matter.

SUMMARY OF COMPLAINTS

Source of Complaint	7 Months June 2016 to Dec 2017	5 Months January 2017 to May 2017	12 Months June 2016 to May 2017
Total complaints	97	85	182
Tests	(4)	0	(4)
Incomplete complaints	(13)	(9)	(22)
Complaints received	80	76	156
Complaints closed	(64)	(45)	(109)
Active complaints	16	31	47

Complaints Received	80	76	156
Referred to By-law or Building Services for review	(15)	(12)	(27)
Referred to 311 for review	(4)	(14)	(18)
Referred to related Agencies and Boards for review	(2)	(1)	(3)
Referred to external law enforcement or courts	(2)	(1)	(3)
Referred to others or closed as unrelated to CGS	(10)	(6)	(16)
Complaints subject to investigation	47	42	89
Closed as no evidence of wrongdoing found	(24)	(8)	(32)
Complaints which required further analysis	23	34	57
Closed with action planned or taken *	(8)	(6)	(14)
Active complaints not yet analyzed	15	28	43
Closed following interim report as no evidence of wrongdoing found	(3)	-	(3)
Closed following interim report with action planned or taken *	(5)	-	(5)
Active complaints not analyzed	7	28	35

**Complaints that were closed with action planned or taken are described in more detail on page 4.*

Subject of Complaints Investigated	Active Complaints End of December 2016	Total End of May 2017
Office of the Mayor	0	0
Members of Council	1	3
City Processes	4	15
City Staff	10	17
Total	15	35

COMPLAINTS WHICH REQUIRED ACTION

Number	Opened	Closed	Type of Complaint	Complaints Closed with Action Planned or Taken
16-0026	July	Jan	Conduct of staff	Action has been taken to remind staff of City policy on personal cell phone usage.
16-0027	July	July	Conduct of staff	Action has been taken to remind Transit staff of need for adherence to schedules.
16-0035	Aug	Aug	Conduct of staff	Action has been taken to review job site etiquette with Roads and Transportation employees.
16-0039	Aug	May	Conduct of staff	Action has been taken to address the conduct of City staff on a job site.
16-0044	Sept	May	Conduct of staff	Action has been taken to confirm that a physical altercation occurred in the workplace and that discipline was issued.
16-0053	Sept	Dec	Procurement process	Action has been taken to review the upgrade of kitchens in fire halls.
16-0055	Oct	Jan	Conduct of staff	Action has been taken by management to speak with the operator and additional training will be provided if necessary.
16-0056	Oct	April	Conduct of staff	Action is planned in accordance with the Harassment and Discrimination policy to address the conduct of the supervisor.
16-0064	Oct	May	Procurement process	Action is planned to review the process for contract extensions.
16-0075	Nov	Nov	Quality of contract work	Action has been taken by staff to review the work for an explanation. The concerns about rudeness were reported to the contracting organization.
16-0081	Dec	Dec	Reports to public	Action will be taken to provide semi-annual status reports to the public on the wrongdoing hotline commencing in June 2017.
16-0084	Dec	Dec	Actions of public	Action has been taken and will continue to be taken by Transit management in cooperation with employees and CUPE to attempt to address abuse of bus operators by the public.
16-0087	Dec	Jan	Area for improvement	Action has been taken to encourage suggestions for improvement like this to be forwarded to management for review and action.
17-0001	Jan	May	Building Code	Action has been taken to address a building code infraction.
17-0014	Jan	May	Conduct of staff	Action has been taken to remind supervisors of the rules for snow plow truck operators.
17-0019	Feb	May	Investigation Process for Fire Services	Action is planned to ensure all investigations are completed objectively and competently in accordance with generally accepted methodologies.
17-0029	March	May	Conduct of staff	Action is planned to review training provided to volunteers.
17-0037	March	March	Conduct of staff	Action is planned to reinforce CGS' Discrimination and Harassment Policy, Workplace Violence and Harassment Prevention Policy and Code of Conduct.
17-0040	March	May	Conduct of staff	Action has been taken to review the employee's conduct and to review the City's policies with the employee.

INDIVIDUAL COMPLAINTS TO THE END OF MAY 2017

Complaint Number	Opened	Closed	Complaint/Allegation	Investigation Outcome
16-0001	June	June	Test	N/A
16-0002	June	June	Test	N/A
16-0003	June	Sept	Dog attack	Referred to 311 for action
16-0004	June	June	Parking infractions	Referred to Bylaw Services
16-0005	June	June	Barking dogs	Referred to Bylaw Services
16-0006	June	Sept	Equipment lost at Azilda dump	No action planned or taken
16-0007	N/A	N/A	Complaint form not completed	N/A
16-0008	June	Aug	Results of investigation by the Mayor's Office	No action planned/taken as no evidence of wrongdoing
16-0009	Sept	Sept	City support for medical clinic in Chelmsford	No action planned/taken as no evidence of wrongdoing
16-0010	June	June	Conduct of staff	No action planned/taken as no evidence of wrongdoing
16-0011	N/A	N/A	Complaint form not completed	N/A
16-0012	June	June	Resident who yells at people	Referred to law enforcement
16-0013	N/A	N/A	Complaint form not completed	N/A
16-0014	N/A	N/A	Complaint form not completed	N/A
16-0015	June	Sept	Cooking device on apartment balcony	Referred to 311 for action
16-0016	June	June	Shoreline alterations by employee in another municipality	Not related to CGS services
16-0017	June	Sept	Watering of lawn	Referred to Bylaw Services
16-0018	June	Sept	Watering of lawn	Referred to Bylaw Services
16-0019	June	Dec	Conduct of the Mayor	No action planned/taken as no evidence of wrongdoing
16-0020	June	Sept	Use of City equipment	No action planned/taken as no evidence of wrongdoing
16-0021	June	Aug	Renovations to City Street	No action planned/taken as no evidence of wrongdoing
16-0022	June	Aug	Education room at Frobisher	No action planned/taken as no evidence of wrongdoing
16-0023	June	Sept	Price of recycling containers	No action planned/taken as no evidence of wrongdoing
16-0024	June	Sept	Unfair contract award process	No action planned/taken as no evidence of wrongdoing
16-0025	June	July	Fairness of bidding process	No action planned/taken as no evidence of wrongdoing
16-0026	July	Aug	Use of personal cell phone by staff	Closed with action planned or taken
16-0027	July	July	Bus failed to show up	Closed with action planned or taken
16-0028	N/A	N/A	Complaint form not completed	N/A
16-0029	July	Sept	Personal use of city vehicle	No action planned/taken as no evidence of wrongdoing
16-0030	July	Aug	Alleged harassment in workplace	Closed with no action planned or taken as this complaint has been

				heard through the formal grievance process in Human Resources
16-0031	N/A	N/A	Complaint form not completed	N/A
16-0032	July	Sept	Use of firecrackers and fireworks	Referred to 311 for action
16-0033	Aug	Sept	Actions of staff	No action planned/taken as no evidence of wrongdoing
16-0034	Aug	Aug	Kids smoking in public places	Referred to Bylaw Services
16-0035	Aug	Aug	Actions of City staff	Closed with action planned or taken
16-0036	N/A	N/A	Complaint form not completed	N/A
16-0037	N/A	N/A	Complaint form not completed	N/A
16-0038	Aug	Aug	Unacceptable wait times at road construction site	Not related to CGS services
16-0039	Aug	May	Conduct of City staff on a job site	Closed with action planned or taken
16-0040	Aug	Aug	Actions of Co-op program staff	Not related to CGS services
16-0041	Aug	Sept	Parking leaky camper trailer	Referred to 311 for action
16-0042	Aug	Sept	Unfair contract award process	No action planned/taken as no evidence of wrongdoing
16-0043	N/A	N/A	Complaint form not completed	N/A
16-0044	Sept	May	Potential harm to people	Closed with action planned or taken
16-0045	Sept	Dec	Actions of a staff member	No action planned/taken as no evidence of wrongdoing
16-0046	Sept	Sept	Parking in park	Referred to 311 for action
16-0047	Sept	Sept	Loud concert music in evening	No action planned/taken as no evidence of wrongdoing
16-0048	Sept	Sept	Garbage burning	Referred to 311 for action
16-0049	Sept	Oct	Plumbing not to standards	Referred to Building Inspection for review
16-0050	Sept	Sept	Premature closure of dump	No action planned/taken as no evidence of wrongdoing
16-0051	Sept	Sept	Misuse of handicap parking.	Referred to 311 for action
16-0052	Sept	Oct	Premature closure of Chelmsford wastewater treatment plant	Referred to 311 for action
16-0053	Sept	Dec	Upgrade of fire hall kitchens	Closed with action planned or taken
16-0054	Oct	Dec	Alleged conflict of interest	No action planned/taken as no evidence of wrongdoing
16-0055	Oct	Oct	Driving of a staff member	Closed with action planned or taken
16-0056	Oct	April	Supervisory comments and conduct	Closed with action planned or taken
16-0057	Oct	Oct	Garbage bag limits	No action planned/taken as no evidence of wrongdoing
16-0058	N/A	N/A	Complaint form not completed	N/A
16-0059	Oct	Open	Personal use of City vehicles	Open
16-0060	Oct	Dec	Building inspection assignments	No action planned/taken as no evidence of wrongdoing
16-0061	Oct	Open	Complaint against a Councilor	Open
16-0062	N/A	N/A	Complaint form not completed	N/A
16-0063	Oct	Oct	Increase in parking fine	POA matter subject to Appeal See Council report Dec 2016

16-0064	Oct	May	Annual price increases on contracts	Closed with action planned or taken
16-0065	Oct	Dec	Restricted use of library services	No action planned/taken as no evidence of wrongdoing
16-0066	Oct	Open	<i>Request for fees reimbursement</i>	<i>Open</i>
16-0067	Nov	Nov	Lack of signs to indicate road painting	Not related to CGS services
16-0068	Nov	Nov	Vehicle damaged by road paint	Not related to CGS services
16-0069	Nov	Nov	Complaint regarding Sudbury and District Health Unit	Not related to CGS services
16-0070	Nov	Nov	Actions of a private property owner	Not related to CGS services
16-0071	Nov	Nov	Test	N/A
16-0072	Nov	Nov	Test	N/A
16-0073	Nov	Nov	Expenditures of a non-profit housing board	Not related to CGS services
16-0074	Nov	Nov	Tenant on Ontario Works not paying rent	Not related to CGS services
16-0075	Nov	Nov	Quality of construction work	Closed with action planned or taken
16-0076	Nov	Dec	Illegal plumbing	Referred to Buildings Services
16-0077	Nov	Dec	Actions of Sudbury Housing staff	No action planned/taken as no evidence of wrongdoing
16-0078	Dec	Dec	Road through conservation area	Referred to 311 for action
16-0079	Dec	Dec	Vehicles idling	Referred to 311 for action
16-0080	Dec	Dec	Driving of city bus driver	Referred to 311 for action
16-0081	Dec	Dec	Information on complaints to this hotline	Closed with action planned or taken
16-0082	Dec	Dec	Failure to collect garbage	Referred to 311 for action
16-0083	Dec	Dec	Personal use of City vehicle	No action planned/taken as no evidence of wrongdoing
16-0084	Dec	Dec	Bus drivers abused by customers and management	Closed with action planned or taken
16-0085	Dec	Dec	Recyclable waste not collected	No action planned/taken as no evidence of wrongdoing
16-0086	Dec	Dec	Snowplowing on Hwy 144	Complaint referred to external entity
16-0087	Dec	Dec	Lack of green bin in a City facility	Closed with action planned or taken
16-0088	Dec	Open	<i>Complaint about a supervisor</i>	<i>Open</i>
16-0089	N/A	N/A	Complaint form not completed	N/A
16-0090	Dec	Open	<i>Privacy issue</i>	<i>Open</i>
16-0091	Dec	Open	<i>Allegation regarding invoices of a contractor</i>	<i>Open</i>
16-0092	Dec	Open	<i>Use of foul language by staff</i>	<i>Open</i>
16-0093	N/A	N/A	Complaint form not completed	N/A
16-0094	Dec	May	Complaint about a supervisor	No action planned/taken as no evidence of wrongdoing
16-0095	Dec	Mar	Residents pushing snow onto the road	No action planned/taken as no evidence of wrongdoing
16-0096	Dec	Jan	Failure to be fair with complaint	No action planned/taken as no

				evidence of wrongdoing
16-0097	Dec	Open	Complaint about a supervisor	Open
17-0001	Jan	May	Complaint about a building code infraction	Closed with action planned or taken
17-0002	Jan	May	Snow plowing creating high bank and visibility problem	Referred to By-law for action
17-0003	Jan	Open	Staff disposing of bags of house hold garbage into the garbage bin at work	Open
17-0004	Jan	Open	Concerns about adequacy of snow plowing operations	Open
17-0005	Jan	Open	Snow clearing of employee parking lots	Open
17-0006	Jan	Open	Rationale for contracting out work	Open
17-0007	Jan	Open	Fairness of the RFP process for a specific type of work	Open
17-0008	Jan	Jan	Unsafe snow clearing	Referred to By-law for action
17-0009	Jan	Open	Procurement process for upgrades to the kitchens in the Fire Halls	Open
17-0010	Jan	Open	Consulting fees paid for the Fire Services optimization plan	Open
17-0011	N/A	N/A	Complaint form not completed	N/A
17-0012	Jan	Jan	Overcrowding on 500 University via Paris bus	Referred to 311 for action
17-0013	Jan	Jan	Fairness of process for allocating overtime to staff	No action planned/taken as no evidence of wrongdoing
17-0014	Jan	May	Driving by snow plow truck operator	Closed with action planned or taken
17-0015	Jan	May	Hiring process for Executive Deputy Chief of Fire and Paramedic Services	No action planned/taken as no evidence of wrongdoing
17-0016	Jan	Feb	inquiry to the building of a home in Chelmsford	No action planned/taken as no evidence of wrongdoing
17-0017	Feb	Feb	Timeliness of Lasalle Cambrian bus	Referred to 311 for action
17-0018	Feb	May	Consulting fees that were paid to new Deputy Chief	No action planned/taken as no evidence of wrongdoing
17-0019	Feb	May	Investigation process for improper conduct within Fire Services	Closed with action planned or taken
17-0020	N/A	N/A	Complaint form not completed	N/A
17-0021	Feb	Open	Out of town expenses of a staff member	Open
17-0022	Feb	March	Snowmobiles traveling on Kenwood street to Bancroft Drive	Referred to external law enforcement or courts
17-0023	Feb	Open	Flyer posted on an office bulletin board appears inappropriate	Open

17-0024	Feb	March	Concerns about a fire starting in a building with a tenant who is a hoarder	Closed as outside of City's jurisdiction to regulate
17-0025	N/A	N/A	<i>Complaint form not completed</i>	N/A
17-0026	Feb	May	Property diminished by the City's actions	No action planned/taken as no evidence of wrongdoing
17-0027	Feb	Open	A private person has a lease with the city that's below market value	Open
17-0028	March	Open	Actions of a snow plow operator	Open
17-0029	March	May	Actions of people responsible for maintenance of the Skead rink.	Closed with action planned or taken
17-0030	N/A	N/A	Complaint form not completed	N/A
17-0031	March	March	Vandalism of seniors crossing sign	Referred to 311 for action
17-0032	March	Open	Rejection of snow plow trucks	No action planned/taken as no evidence of wrongdoing
17-0033	March	March	Parking restriction violation at Sudbury Housing Corp.	Referred to the agency for review
17-0034	March	Open	Actions of a bus driver	Open
17-0035	March	April	Call from collection agency	Closed as outside of City's jurisdiction
17-0036	March	Open	Actions of operator of city dump truck.	Open
17-0037	March	March	Allegations of harassment and suggestive behavior	Closed with action planned or taken
17-0038	March	March	Road work near the residence of caller	Referred to 311 for action
17-0039	N/A	N/A	<i>Complaint form not completed</i>	N/A
17-0040	March	May	Employee using inappropriate language on social media	Closed with action planned or taken
17-0041	March	Open	Work at Tom Davies Sq. has been delayed by several months	Open
17-0042	March	March	Person at a school bus stop had a pitbull with no muzzle	Closed as not related to CGS services
17-0043	March	March	An apartment is illegal as there is no escape for the tenant	Referred to By-law services
17-0044	March	Open	Allegation that money is being stolen from Sudbury residents	Open
17-0045	March	March	Sale of antiques by a resident	Referred to By-law services
17-0046	March	March	Women walking her pitbull with no muzzle to a school bus stop	Closed as not related to CGS services
17-0047	March	Open	Employment terms of an employee at Pioneer Manor	Open
17-0048	April	Open	Complaint regarding conduct of a member of Council	Open
17-0049	N/A	N/A	<i>Complaint form not completed</i>	N/A
17-0050	April	April	Someone cut a trail through his property	Closed as this falls outside the jurisdiction of the City.
17-0051	April	April	Actions of a City bus driver	Referred to 311 for action
17-0052	April	April	Actions of bus drivers in this city	Referred to 311 for action

17-0053	April	Open	Garbage on junction creek trail by St Francis school needs to be emptied.	Referred to 311 for action
17-0054	April	Open	Sanitary concerns regarding employees at a retail outlet	Closed as this falls outside the jurisdiction of the City.
17-0055	April	May	Lack of building permits for a residence	No action planned/taken as no evidence of wrongdoing
17-0056	April	Open	Conduct of a member of Council	Open
17-0057	April	April	Neighbor is throwing food in the back yard trying to attract bears	Referred to By-law services for action
17-0058	April	April	Improper Traffic Control	Referred to 311 for action
17-0059	April	Open	Conduct of operator of a City vehicle	Open
17-0060	April	Open	Business activities being conducted in the workplace by a City employee	Open
17-0061	April	Open	Personal use of City vehicles	Open
17-0062	May	May	City workers taking a 2 hour break	No action planned/taken as no evidence of wrongdoing
17-0063	N/A	N/A	Complaint form not completed	N/A
17-0064	May	May	Residents using their neighbor's property to discard waste	Referred to By-law services for action
17-0065	May	May	Timeliness of Sudbury Transit bus	Referred to 311 for action
17-0066	May	Open	Actions of City's By-law officer	Open
17-0067	May	Open	Actions of City's By-law officers	Open
17-0068	N/A	N/A	<i>Complaint form not completed</i>	N/A
17-0069	May	Open	Actions of a staff member regarding testing of animals	Open
17-0070	May	May	Neighbor is building a deck attach to the house without a permit	Referred to Building Services for action
17-0071	N/A	N/A	<i>Complaint form not completed</i>	N/A
17-0072	May	May	Trailer parked on the street in front of neighbor's house again	Referred to 311 for action
17-0073	May	May	Request for RV locations to be reassessed	Referred to 311 for action
17-0074	May	May	Abandoned house that is boarded up	Referred to By-law services for action
17-0075	May	May	People have been breeding dogs in a residential area.	Referred to By-law services for action
17-0076	May	Open	City baseball field not having working lights	Referred to 311 for action
17-0077	May	May	Residents are blocking the alleyway to a residential area	Referred to By-law services for action
17-0078	May	May	People leave bags of garbage on the street and in the "wetland"	Referred to By-law services for action
17-0079	May	Open	Automatic contract extensions for office supplies	Open
17-0080	May	May	Gravel put on road with no flag person or pylons to warn users	Referred to 311 for action

17-0081	May	May	A company is demolishing and renovating a property without permits.	Referred to Building Services for action
17-0082	May	Open	Audit issue for the community partnership grant application process	Open
17-0083	May	May	Safety of passenger exiting a City bus	Referred to 311 for action
17-0084	May	May	A mountain of furniture and garbage has been accumulating at a residential location	Referred to 311 for action
17-0085	May	Open	Rationale and cost for having RV dumps in 3 different locations	Open

Note 1 - Complaints that are in bold text in the above report are still open at the time of this report.

Note 2 – Complaints that resulted in action planned or taken are highlighted in gray and described in greater detail on page 4 of this report.

Presented To:	Audit Committee
Presented:	Tuesday, Oct 24, 2017
Report Date	Friday, Sep 29, 2017
Type:	Managers' Reports

Request for Decision

Performance Audit Report of Capital Budgeting Process

Resolution

THAT the City of Greater Sudbury endorses the recommendations as outlined in the report entitled "Performance Audit Report on Capital Budgeting Process" from the Auditor General, presented at the Audit Committee meeting on October 24, 2017.

Signed By


No signatures or approvals were recorded for this report.

Audit Committee

Type of Decision								
Meeting Date	October 24, 2017				Report Date	October 12, 2017		
Decision Requested	X	Yes		No	Priority	X	High	Low
	Direction Only				Type of Meeting	X	Open	Closed

Performance Audit of the Capital Budgeting Process									

Resolution					Relationship to the Strategic Plan/Health Impact Assessment				
<p>THAT the City of Greater Sudbury endorses the recommendations as outlined in the report entitled "Performance Audit of the Capital Budgeting Process" from the Auditor General, presented at the Audit Committee meeting on October 24, 2017.</p>					<p>This report supports the strategic objectives of providing responsive, fiscally prudent, open governance and sustainable infrastructure.</p>				
<p>Resolution Continued</p>					<p>Background Attached</p>				

Report Summary	Financial Implications
<p>While Finance staff has taken a number of positive steps in recent years to review and update the City's financial plans, including the development of an asset management plan and a long term financial plan, this audit determined that key links from these plans to the capital budgeting process are missing. To ensure financial sustainability, the capital budgeting process also needs to be more closely tied to the City's core services and integrated with the enterprise risk management program.</p>	<p>This report has no financial implications.</p> <div data-bbox="803 1081 1435 1165">Recommended by the Auditor General</div> <div data-bbox="803 1165 1435 1371">  <p>Ron Foster Auditor General</p> </div>

Performance Audit of the Capital Budgeting Process

October 12, 2017
FINAL REPORT



Objectives

The objectives of this audit were to:

- Review the capital budgeting process to understand its relationship to other financial planning processes within the City;
- Assess the effectiveness of the capital budgeting process to manage the City's tangible capital assets and associated risks; and
- Recommend improvements to the capital budgeting process.

Background

This audit was requested by Finance staff which sought an independent assessment of the existing capital budgeting process following the approval of the recent asset management plan which identified a number of significant concerns with the age and remaining useful service lives of the City's tangible capital assets.

A number of changes to the current capital budgeting policy, envelope system and project prioritization process are being examined by Finance staff for implementation in 2019. These changes are part of a broader review of major financial planning processes that was initiated by Finance staff in 2016 to update the City's long-term financial plan. Further revisions are anticipated as Finance staff move forward with implementation of asset management and enterprise risk management programs and the development of policies to support the long-term financial plan which was approved by Council in April 2017.

Introduction

Capital budgeting in the City of Greater Sudbury is coordinated by Finance but is a decentralized process. The capital budget policy provides authority for capital envelopes which are funding packages assigned to each department from the annual operating budget or tax levy. These envelopes are increased annually by the greater of 2% or the Non-Residential Building Construction Price Index. Separate capital envelopes are established for water and wastewater projects and are funded by user fees.

The capital budget is a one-year plan for the acquisition, rehabilitation or replacement of tangible capital assets and significant annual repairs or special projects and includes a four-year outlook on future capital projects. This budget identifies the cost of each capital project and the source of funding including the capital envelopes, reserve funds, government funding, external debt financing, internal future financing and third-party recoveries.

Capital Envelopes in thousands (\$000)

Year	Total Amount of Capital Envelopes*	Total Amount of Capital Budget*
2014	66,882	94,381
2015	58,495**	109,048
2016	60,292	106,294
2017	64,824	222,001

*Excluding HCI Funds

**Decrease in the capital envelopes in 2015 was due to the external debt for the Bio-Solids Facility and Transit/Fleet Garage which resulted in a reallocation of capital envelopes to the operating budget to fund external debt repayments.

Between 2014 and 2016, the total capital budget averaged approximately \$104 million. In 2017, the total increased to approximately \$222 million as the City received \$89 million of funding from the upper tiers of government for a number of roads, water and wastewater and transit capital projects.

The first stage of the capital budgeting process is the preparation of the annual capital budget by operational staff and respective Executive Leadership Team member. The next stage is the review of the capital budget by the Executive Leadership Team to ensure it addresses significant needs. The final stage includes a review of the capital budget by the Finance and Administration Committee, potential adjustments, and then the approval of the annual capital budget by this Committee and Council.

Scope

The scope of this audit included the capital budgeting process for the 2014 to 2017 fiscal year as well as the recent Asset Management Plan and Long-Term Financial Plan developed by KPMG.

The scope also included a review of best practice literature from the Association of Municipalities of Ontario, Federation of Canadian Municipalities and Government Finance Officers Association as well as benchmarking with the Cities of Guelph, Kingston, Barrie, Windsor, Halifax, Mississauga, Edmonton and Fort Lauderdale for their approaches to the capital budgeting process.

Report Highlights

Finance staff has taken a number of positive steps in recent years to develop an asset management plan and update the long-term financial plan. In April 2017, Council directed staff to review the findings in the long-term financial plan and recommend policy changes to Council. In anticipation of changes, staff requested an independent audit of the capital budgeting process.

This audit determined that the City's current capital budgeting process is not effective. It is not integrated with the City's asset management plan and long-term financial plan. The capital envelope system does not provide sufficient funding to maintain or replace the City's aging tangible capital assets. Capital projects are also not prioritized using a common approach within different departments, so projects that facilitate the delivery of core services and respond to risks are deferred every year.

As a result of the above weaknesses and other factors, an infrastructure funding gap of \$1.9 billion had arisen by the end of 2016. This gap will grow to \$3.1 billion by the end of 2026 unless staff moves forward with plans to align the annual capital budgeting process with the long-term financial plan, asset management plan, enterprise risk management program and debt management policy.

Audit Standards

We conducted our audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we adequately plan for the audit; properly supervise audit staff; obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions; and prepare audit documentation related to the planning, conducting, and reporting for each audit. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

For further information regarding this report, please contact Ron Foster at the City of Greater Sudbury at 705-674-4455 extension 4402 or via email at ron.foster@greatersudbury.ca

OBSERVATIONS AND ACTION PLANS

1. Capital Budgeting Process

During the annual capital budgeting process, insufficient funding is allocated to the capital envelopes to maintain the City's tangible capital assets which have an estimated replacement cost of \$7.2 billion. Funding levels for the reserves also do not cover the replacement costs of these assets. As a result, the City will be required to issue debt or employ alternative financing techniques to replace its aging tangible capital assets which have deteriorated significantly over the years. Unless steps are taken to extend their lives, over 40% of these assets will be approaching the end of their useful service lives over the next 10 years.

According to KPMG, an estimated infrastructure funding gap of \$3.1 billion will exist by 2026. Approximately \$1.9 billion is required to replace the tangible capital assets that are presently operating beyond their useful lives and an additional \$1.2 billion of investment will be needed by 2026. To address these gaps, KPMG recommended that the City implement a 2% special levy, rationalize its service levels and tangible capital assets and use debt to finance major capital projects.

Our audit indicated that the funding gap has been growing for some time because of insufficient funding of annual capital budgets relative to current levels of service. Despite periodic as well as small annual increases to capital budgets, the City's tangible capital assets have continued to age and deteriorate to the point that higher taxes and debt are likely required to maintain the City's current level of services.

Our analysis indicated that raising taxes via a special annual levy is unlikely to raise sufficient funds to meet the \$3.1 billion of infrastructure funds that KPMG projected would be required by 2026. As shown below, less than one tenth of the required funds would be raised by a 2% annual special levy. Given the size of this funding gap, raising taxes and issuing debt or employing alternative financing techniques such as public private partnerships to replace the City's aging assets will not resolve this growing problem on their own.

Special Levy	10 Years	20 Years	30 Years	40 Years
2%	0.30 billion	1.28 billion	3.17 billion	6.28 billion

Unless the City experiences significant growth in the future or receives significant funding assistance from the upper tiers of government, it will be unable to replace all of its tangible capital assets at the end their useful service lives. To ensure financial sustainability, steps must be taken to develop formal asset management programs, rationalize capital assets and service levels, and shift funding from operating to capital budgets. These steps will align the annual capital budgeting process with the long-term financial plan and asset management plan.

Recommendations:

1. Continue to seek additional funding from upper tiers of government to address the City's infrastructure funding requirements;
2. Continue to move forward with plans to develop a financially sustainable asset management program to rationalize the City's tangible capital assets and manage their lifecycle costs more effectively;

3. Identify options to increase the capital budget to help address the \$3.1 billion of infrastructure funding requirements that were identified by KPMG in the City's asset management plan;
4. Initiate a core service and service level review program to rationalize service levels to allow funding to be directed from operating budgets to capital budgets;
5. Examine the potential merits of using alternative financing strategies such as public private partnerships when planning for the replacement of the City's aging tangible capital assets; and
6. Require business cases to be prepared for all new infrastructure projects to demonstrate their need as well as their affordability within the long-term financial plan.

Management Comment and Action Plan

City management and staff understand the pressures facing the City of Greater Sudbury and its capital infrastructure funding requirements since the first long term financial plan completed in 2002. It is important to note that all municipalities are experiencing the same pressure with its capital infrastructure. For example, the President of the Association of Municipalities of Ontario has been quoted relating to understanding Canada's municipal infrastructure deficit by saying:

"The infrastructure underinvestment problem has emerged over the last two decades. In the early 1990s, the federal government transferred a significant portion of its operating deficit to provinces and territories by drastically cutting funding transfers. In Ontario, in turn, the provincial government downloaded part of its operating deficit to municipalities by downloading costs for programs such as welfare, social housing, ambulance services and 5,000 kilometres of provincial highways and related bridges. The results are clear. Federal and Provincial historical budget deficits have been transformed into a municipal infrastructure deficit. As a result of the massive shift in financial responsibilities, municipalities have had to increase taxes year after year, reduce services in the community, and defer infrastructure rehabilitation to later in its lifecycle."

Staff has presented options for past and current Councils for a special capital levy during the annual budget process. As stated by the Auditor General, past City Councils have approved a special levy to improve the capital budget during the years of 2005, 2006, 2007, 2008 and 2012 which have been partially offset by permanent reductions in years 2010 and 2015.

In addition, staff agrees with the recommendations from KPMG within the Asset Management Plan that was presented to City Council in December 2016. The recommendations include the following:

- a) Establishing service levels that consider employment of assets beyond the end of their useful lives*
- b) A multi-year program of affordable tax increases (e.g. 2%) that would be restricted to capital (special capital levy)*
- c) The increased use of debt for the financing of major capital projects*
- d) The realignment of the City's capital envelopes to ensure appropriate balancing*
- e) A focus on asset rationalization*
- f) Service rationalizations*

These recommendations will be reviewed by staff and presented to Council(s) for consideration of any changes to service levels, use of debt financing (such as for the large projects) as well as special capital levy to improve the infrastructure requirements. Also, staff is preparing a revised Capital Budget Policy which will have one capital envelope that will be used to fund capital projects based on ranking of certain criteria/ranking system. This will ensure that the capital funds are allocated to the capital projects with highest priority for the overall City as opposed to by department/division. This new Capital Budget Policy will also include recommendations

from the Asset Management Coordinator, which was a new position that City Council approved during the 2017 Budget.

2. Capital Project Prioritization Methodology

The current capital budgeting process employs capital envelopes to allocate funding to program areas and requires individual departments to prioritize their capital projects each year. While some departments, such as roads, employ sophisticated methodologies to prioritize capital projects, important projects are deferred every year as the envelopes are not sufficiently funded and an enterprise-wide approach is not used to prioritize these projects.

Finance staff has identified the need to change the capital budget policy and is working towards the development of a new capital budget approach that would evaluate projects using common criteria that align with the City's corporate strategic plan and enterprise risk management program. Our review of best practice literature from the Association of Municipalities of Ontario and the Federation of Canadian Municipalities indicates that this change would be prudent as it would support a move to more financially sustainable infrastructure.

Recommendation:

1. Discontinue the capital envelope system in 2019 and adopt a funding model that is similar to the one shown at Attachment 1 which would allow funding to be directed to capital projects which align with strategic and operational plans, facilitate the delivery of core services, and address significant risks.

Management Comment and Action Plan

Currently, each department has a different priority setting approach/criteria due to the unique nature of capital assets in their respective area. The existing Capital Budget Policy authorizes an amount to each department and then each department Management decides on the prioritization of required capital projects based on available capital funding.

Staff has identified that a change should be implemented with respect to the capital budget and envelope system. Staff is proceeding with updating the capital budget policy along with establishment of an appropriate criteria and ranking system to prioritize all capital projects with funding from the overall capital envelopes.

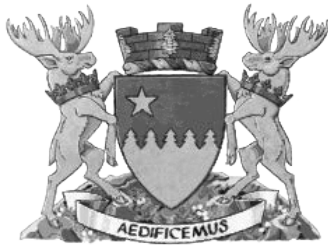
Meetings have been held during 2017 with each department (Growth and Infrastructure, Community Development, and Community Safety) that included Executive Leadership Team members, Directors and Managers to discuss and obtain their feedback for these principles along with possible criteria that should be considered to properly evaluate each capital project. As departments have unique nature of capital assets, additional criteria may relate to one section than another (ie. specific legislation).

As a result of staff's progress on changing the policy and capital envelope system, staff requested the Auditor General to provide his opinion of possible ranking criteria for us to consider. Staff prepared a preliminary listing of criteria along with possible system of ranking and this was provided to the Auditor General as part of his review. However, the criteria are a work in progress which has not been approved by the Executive Leadership Team until all concerns are considered for respective capital projects (ie. health and safety, legislation, asset condition/beyond useful life, resident enjoyment, economic development, etc) from meetings with departments. Staff will work with the Auditor General on our process moving forward.

The overall goal is to have a new capital budget policy along with approved criteria with an appropriate ranking system for use in the 2019 Budget. Staff will continue to work and refine criteria to ensure each asset class evaluated properly relative to other asset classes to determine which is in the greatest need of rehabilitation. This will ensure that the City will properly assess and invest in the capital projects with the highest priority and importance for the overall City and its residents.

Attachment 1 – Suggested Enterprise Funding Model

		Prioritization Criteria	1 to 5
Operational Program Considerations	1	Legal or Regulatory Requirements Whether there are legal or regulatory requirements for the project	
	2	Asset Condition and Age Whether the existing asset is at or near the end of its useful service life or has deteriorated so significantly that its usefulness is impaired	
	3	Core Service Whether the project supports the delivery of core services	
	4	Risk Management Whether completion of the project would improve the management of important risks such as public health and safety, business disruptions and disasters	
	5	Project Consistency with Operational Plans & Priorities Whether the project is consistent with operational plans and priorities	
Strategic Goals	6	Growth & Economic Development Whether the project would grow the economy and attract investment	
	7	Quality of Life and Place Whether the project would strengthen the high quality of life we already know and love	
	8	Responsive, Fiscally Prudent, Open Governance Whether the project would allow the City to lead in public service excellence	
	9	Sustainable Infrastructure Whether the project would allow the City to prioritize build and rebuild our community's foundation	
	10	Other Strategic Priorities Whether the project addresses other strategic goals of Council	
		Total Score	



City of Greater Sudbury Charter

WHEREAS Municipalities are governed by the Ontario Municipal Act, 2001;

AND WHEREAS the City of Greater Sudbury has established Vision, Mission and Values that give direction to staff and City Councillors;

AND WHEREAS City Council and its associated boards are guided by a Code of Ethics, as outlined in Appendix B of the City of Greater Sudbury's Procedure Bylaw, most recently updated in 2011;

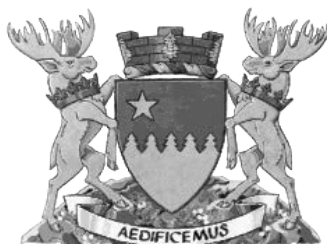
AND WHEREAS the City of Greater Sudbury official motto is "Come, Let Us Build Together," and was chosen to celebrate our city's diversity and inspire collective effort and inclusion;

THEREFORE BE IT RESOLVED THAT Council for the City of Greater Sudbury approves, adopts and signs the following City of Greater Sudbury Charter to complement these guiding principles:

As Members of Council, we hereby acknowledge the privilege to be elected to the City of Greater Sudbury Council for the 2014-2018 term of office. During this time, we pledge to always represent the citizens and to work together always in the interest of the City of Greater Sudbury.

Accordingly, we commit to:

- Perform our roles, as defined in the Ontario Municipal Act (2001), the City's bylaws and City policies;
- Act with transparency, openness, accountability and dedication to our citizens, consistent with the City's Vision, Mission and Values and the City official motto;
- Follow the Code of Ethical Conduct for Members of Council, and all City policies that apply to Members of Council;
- Act today in the interest of tomorrow, by being responsible stewards of the City, including its finances, assets, services, public places, and the natural environment;
- Manage the resources in our trust efficiently, prudently, responsibly and to the best of our ability;
- Build a climate of trust, openness and transparency that sets a standard for all the City's goals and objectives;
- Always act with respect for all Council and for all persons who come before us;
- Ensure citizen engagement is encouraged and promoted;
- Advocate for economic development, encouraging innovation, productivity and job creation;
- Inspire cultural growth by promoting sports, film, the arts, music, theatre and architectural excellence;
- Respect our historical and natural heritage by protecting and preserving important buildings, landmarks, landscapes, lakes and water bodies;
- Promote unity through diversity as a characteristic of Greater Sudbury citizenship;
- Become civic and regional leaders by encouraging the sharing of ideas, knowledge and experience;
- Work towards achieving the best possible quality of life and standard of living for all Greater Sudbury residents;



Charte de la Ville du Grand Sudbury

ATTENDU QUE les municipalités sont régies par la Loi de 2001 sur les municipalités (Ontario);

ATTENDU QUE la Ville du Grand Sudbury a élaboré une vision, une mission et des valeurs qui guident le personnel et les conseillers municipaux;

ATTENDU QUE le Conseil municipal et ses conseils sont guidés par un code d'éthique, comme l'indique l'annexe B du Règlement de procédure de la Ville du Grand Sudbury dont la dernière version date de 2011;

ATTENDU QUE la devise officielle de la Ville du Grand Sudbury, « Ensemble, bâtissons notre avenir », a été choisie afin de célébrer la diversité de notre municipalité ainsi que d'inspirer un effort collectif et l'inclusion;

QU'IL SOIT RÉSOLU QUE le Conseil de la Ville du Grand Sudbury approuve et adopte la charte suivante de la Ville du Grand Sudbury, qui sert de complément à ces principes directeurs, et qu'il y appose sa signature:

À titre de membres du Conseil, nous reconnaissons par la présente le privilège d'être élus au Conseil du Grand Sudbury pour le mandat de 2014-2018. Durant cette période, nous promettons de toujours représenter les citoyens et de travailler ensemble, sans cesse dans l'intérêt de la Ville du Grand Sudbury.

Par conséquent, nous nous engageons à :

- assumer nos rôles tels qu'ils sont définis dans la Loi de 2001 sur les municipalités, les règlements et les politiques de la Ville;
- faire preuve de transparence, d'ouverture, de responsabilité et de dévouement envers les citoyens, conformément à la vision, à la mission et aux valeurs ainsi qu'à la devise officielle de la municipalité;
- suivre le Code d'éthique des membres du Conseil et toutes les politiques de la municipalité qui s'appliquent à eux;
- agir aujourd'hui pour demain en étant des intendants responsables de la municipalité, y compris de ses finances, biens, services, endroits publics et du milieu naturel;
- gérer les ressources qui nous sont confiées de façon efficiente, prudente, responsable et de notre mieux;
- créer un climat de confiance, d'ouverture et de transparence qui établit une norme pour tous les objectifs de la municipalité;
- agir sans cesse en respectant tous les membres du Conseil et les gens se présentant devant eux;
- veiller à ce qu'on encourage et favorise l'engagement des citoyens;
- plaider pour le développement économique, à encourager l'innovation, la productivité et la création d'emplois;
- être une source d'inspiration pour la croissance culturelle en faisant la promotion de l'excellence dans les domaines du sport, du cinéma, des arts, de la musique, du théâtre et de l'architecture;
- respecter notre patrimoine historique et naturel en protégeant et en préservant les édifices, les lieux d'intérêt, les paysages, les lacs et les plans d'eau d'importance;
- favoriser l'unité par la diversité en tant que caractéristique de la citoyenneté au Grand Sudbury;
- devenir des chefs de file municipaux et régionaux en favorisant les échanges d'idées, de connaissances et concernant l'expérience;
- viser l'atteinte de la meilleure qualité et du meilleur niveau de vie possible pour tous les résidents du Grand Sudbury.