



# The City of Greater Sudbury

Presentation of the Audit  
Plan for the year ending  
December 31, 2015

## Agenda

The PwC audit

Update our understanding of the City

Focus on materiality and key risks

Robust testing approach

Insightful recommendations for you

Other matters

Audit timetable and communication plan

Your team

Audit Fees

What's new? Accounting and Financial Reporting Update

## The PwC audit

PwC's audit is based on a foundation of integrating highly skilled people, a robust audit approach and market leading technology. This, together with our four-step audit process, results in an audit that is robust, insightful and relevant.

1. Understanding your operations
2. Focus on key risks
3. Robust testing approach
4. Insightful recommendations for you



People



Approach



Technology



The PwC Audit



## 1. Update our understanding of the City

- Our audit risk assessment, strategy and approach is built on a firm understanding of the City's operations.
- This understanding is enhanced by the breadth of commercial expertise and experience both within the audit team and the wider firm.
- We obtain an understanding of the City's internal controls and processes with respect to the areas noted below.

Control environment

Risk assessment

Information and communication

Monitoring of internal controls

Control activities

## 2. Focus on materiality and key risks



### Materiality

- matter of professional judgment
- considers the needs of the users
- considered in evaluating the effect of misstatements as a whole on the financial statements and our audit opinion
- Basis for setting materiality is in accordance with the recommendations of the CICA handbook guidelines
  - Preliminary unconsolidated overall materiality set at \$10.3 million (2% of the City's 2015 budgeted operating expenditures)
  - Report to the Audit Committee unadjusted and adjusted items greater than \$514 thousand (5% of overall materiality)
  - Will conduct testing at levels that are below overall materiality taking risks into account

## 2. Focus on materiality and key risks (cont'd)

### Key risks

- Significant audit risks - those risks of material misstatement that, in our judgment, require special audit consideration .
- The following significant audit risks and other risks with a potential audit impact have been identified:

|                                                                                                                                                                                                                                                                                      |                                                                                                                            |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| Management override of controls                                                                                                                                                                                                                                                      | - Need to consider risk of fraud                                                                                           |
| Revenue recognition<br><br>Auditing standards assume a rebuttable presumption, that there is a significant risk of fraud in revenue recognition in all organizations.                                                                                                                | - Inherently higher risk<br>- Significant revenue streams<br>- Can be complex in nature<br>- Involves management judgement |
| Significant accounting estimates: <ul style="list-style-type: none"><li>- Environmental liabilities (landfill sites and potentially contaminated sites)</li><li>- Employee benefits</li><li>- Provisions (property taxes and receivables)</li><li>- Contingent liabilities</li></ul> | - Subject to management judgment and assumptions<br>- Higher level of estimation involved                                  |

## 2. Focus on materiality and key risks (cont'd)

### Consideration of fraud risk

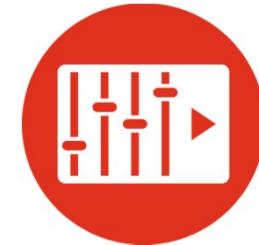
- Canadian auditing standards require us to discuss fraud risk annually with the Audit Committee
- Our understanding of the City's oversight processes to mitigate fraud includes:
  - tone at the top
  - employee handbook (including areas such as employment rules and policies, compliant process etc.)
  - Audit Committee (and other) Charters
- We will perform specific procedures in order to fulfill our responsibilities, which include:
  - incorporating an element of unpredictability
  - testing a sample of manual journal entries
  - reviewing accounting estimates for bias
- Management confirmed that they are not aware of any fraud in 2015

## 2. Focus on materiality and key risks (cont'd)

### Cyber resilience – emerging risk

- As part of our investment in the City and to stay alert to emerging risks, PwC performed a set of specified procedures regarding cyber resilience on key systems at the City in 2015.
- These procedures were performed in conjunction with our regularly scheduled IT work and consisted of:
  - interviews;
  - surveys; and
  - review of the security controls audit work.
- We have reported back our findings, including some recommendations to strengthen and formalize certain processes, as a value added service to management. We are in the process of finalizing the report.

### 3. Robust testing approach



#### Our audit approach

- The composition of our audit testing is fundamental to the effectiveness of audit evidence.
- Our approach will include a combination of testing of key controls and substantive detailed audit testing of significant account balances and transactions
- Our testing of key controls leverages City controls and processes:
  - Rely where possible (that is, where we deem it efficient and effective to do so) on the City's internal controls, information technology (IT) and data systems, internal audit and the auditor general's office
  - In particular, we perform testing of controls within the payroll, purchases/ payables/payments and certain other processes. Our testing of controls includes testing the approval of expenditures (capital and operating) and new hires, terminations and other payroll changes

### 3. Robust testing approach (cont'd)

#### Our audit approach (cont'd)

- Leverages City controls and processes (cont'd)
  - In addition, we perform tests of controls over the City's computer systems (in the areas of security, segregation of duties, operations, programs developments and changes). In 2013, City's management addressed the IT internal control observations and recommendations that we identified as part of our fiscal 2011 and 2012 audits. As a result, we were able to place a higher degree of reliance on the City's computer systems for the purposes of the fiscal 2014 audit and will continue to do so for the purposes of the fiscal 2015 audit
- **Substantive detailed audit testing** are audit procedures executed on each material financial statement line item and are designed to detect material misstatements at the assertion level (i.e. completeness, accuracy, cut-off, existence, classification, valuation, etc.).

### 3. Robust testing approach (cont'd)

#### Our audit approach (cont'd)

- A sampling approach would be applied when performing substantive detailed audit testing. We would either target test certain balances / transactions based on risk or dollar value and/or take a non-statistical sample of items within a pre-defined population for testing.
- Examples of substantive detailed audit testing procedures:
  - Target test: Test fixed asset additions made during the year by agreeing all fixed asset additions greater than a pre-defined dollar value threshold to supporting documentation (i.e. invoice received from a vendor) ensuring the amount on the invoice agreed to the amount recorded in the general ledger and the addition was properly classified as a capital asset expenditure.
  - Non-statistical test: Haphazardly select items from the City's detailed listing of liabilities at year-end and agree amounts to supporting documentation (i.e. vendor invoice, cheque payment) to ensure the amount on the invoice agreed to the general ledger, the expenditure was incurred during the year and was paid subsequent to year-end.

### 3. Robust testing approach (cont'd)

#### Our audit approach (cont'd)

Our testing strategy can be summarized as follows:

| Type of test             | Where used                                                                                                          |
|--------------------------|---------------------------------------------------------------------------------------------------------------------|
| Confirmation             | Cash, Investments, Government grant funding and Property taxes (revenues), Legal claims                             |
| Internal control testing | Purchases/payments cycle, Payroll                                                                                   |
| Key reconciliations      | Balance sheet accounts                                                                                              |
| Analytical procedures    | Depreciation expense, property taxes receivable, water and wastewater revenues, investment income, interest expense |
| Auditing estimates       | Property tax provision, landfill closure liability, environmental liabilities, employee benefit obligations         |
| CAATs                    | Manual journal entries                                                                                              |
| Specialists              | Actuaries – post employment benefit obligation                                                                      |



## 4. Insightful recommendations for you

- Our primary responsibility is to the City's stakeholders. However, we report to, and work with, those charged with governance, Council and management.
- Our audit gives us insight and access to the City's people, operations and processes.
- Sharing our views and insights are a key aspect of what we do and how we work with the City.
- For the 2015 year, we will continue to provide our perspectives on the City's internal controls and processes based on our testing of internal controls that we plan to rely on as part of the financial statement audit.

## 5. Audit timetable and communication plan

|                                                                                        |                           |
|----------------------------------------------------------------------------------------|---------------------------|
| Audit planning                                                                         |                           |
| Audit planning (including developing the audit approach)                               | September / October 2015  |
| Presentation of audit plan to the Audit Committee                                      | October 2015              |
| Audit                                                                                  |                           |
| Interim audit fieldwork - City and related agencies and boards                         | September – November 2015 |
| Year-end audit fieldwork – City and related agencies and boards                        | March – April 2016        |
| Clearance meetings with management and PwC                                             | May 2016                  |
| Finalization of consolidated financial statements and year-end Audit Committee meeting | June 2016                 |

## 6. Your team

- Key members of the City of Greater Sudbury engagement team are as follows:

|                             |                |
|-----------------------------|----------------|
| Senior Relationship Partner | Cathy Russell  |
| Engagement Leader           | Michael Hawtin |
| Engagement Manager          | Urooj Vohra    |

- In addition, we have assigned specialists in the areas of information technology, employee benefits and taxation to assist with the audit
- We have also assigned a quality review partner, who is independent of the audit team and whose responsibilities include ensuring a quality audit is delivered

## 7. Audit fees

- Our fees are in accordance with our fee quote for 2015
- Audit fee for the 2015 audit of the consolidated City financial statements - \$93,000

## 8. What's new?

### Accounting Standards effective beyond 2015:

| Accounting standard                                                                                                                                                                                                                                                                                                                | Effective date                                                 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|
| Section PS 3450, Financial instruments. Concurrent with the adoption of this Section, organizations must adopt Section PS 1201, Financial Statement Presentation (replacing Section PS 1200) and Section PS 2601, Foreign Currency Translation (replacing PS 2600) and Section PS 3041, Portfolio Investments (replacing PS 3040). | Effective for fiscal years beginning on or after April 1, 2019 |
| Section PS 3430, Restructuring transactions                                                                                                                                                                                                                                                                                        | Effective for fiscal years beginning on or after April 1, 2018 |
| Section PS 2200, Related Party Disclosures                                                                                                                                                                                                                                                                                         | Effective for fiscal years beginning on or after April 1, 2017 |
| Section PS 3420, Inter-entity Transactions                                                                                                                                                                                                                                                                                         |                                                                |
| Section PS 3210, Assets                                                                                                                                                                                                                                                                                                            |                                                                |
| Section PS 3320, Contingent assets                                                                                                                                                                                                                                                                                                 |                                                                |
| Section PS 3380, Contractual rights                                                                                                                                                                                                                                                                                                |                                                                |

## 8. What's new? (cont'd)

### Corporate reporting and regulatory changes

- IAASB auditor reporting model
  - The International Auditing and Assurance Standards Board (IAASB) issued an exposure draft in 2013 proposing a new auditor's report that is applicable to companies following International Standards on Auditing.
  - The Canadian Auditing and Assurance Standards Board (CAASB) is expected to adopt the new requirements, if agreed upon, as Canadian Auditing Standards.
  - Significant changes include the addition of a “key matters” section whereby the auditor would describe the significant judgements or areas of audit focus – these would be the types of matters normally reported and discussed with the Audit Committee. The inclusion of this section would be mandatory for listed public companies and optional for others.
  - The requirements will likely be applicable for year-ends ending after December 15, 2016.

# The City of Greater Sudbury

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