

Presented To:	Audit Committee
Presented:	Tuesday, Jun 16, 2015
Report Date	Monday, May 25, 2015
Type:	Presentations

For Information Only

2014 Audit Findings Report

Recommendation

For Information Only.

BACKGROUND

For entities with public accountability, auditing standards require auditors to communicate specific information to an Audit Committee. The City's external auditors will be presenting their Audit Findings Report with respect to the 2014 year-end to the Audit Committee on June 16, 2015. Their presentation will cover the following issues:

- Audit Opinion
- Independence
- Audit Highlights and Findings
- Internal Control Recommendations

The purpose of their presentation will be to communicate to the Committee a summary of any significant findings and other matters which our external auditors believe should be brought to your attention, thereby assisting this Committee with respect to their review and recommendation to Council for approval of the 2014 Financial Statements. Attached is the complete Audit Findings Report prepared by the external auditors.

In addition to reporting all financial transactions appropriately following Generally Accepted Accounting Principles for local governments established by the Public Sector Accounting Board of The Canadian Institute of Chartered Professional Accountants of Canada, management also has a responsibility to apply their best judgement at the time in preparing accounting estimates and/or disclosures in the financial statements.

The concept of materiality is applied in determining whether or not the statements are considered to be a fair representation. Materiality includes both qualitative and quantitative factors which are assessed in the light of whether or not they may be likely to influence the decisions made by persons relying on the financial statements. The auditors have confirm that there are no material unadjusted financial statement misstatements.

Signed By

Report Prepared By

Christina Dempsey
Co-ordinator of Accounting
Digitally Signed Jun 3, 15

Division Review

Lorraine Laplante
Manager of Accounting
Digitally Signed Jun 3, 15

Recommended by the Department

Lorella Hayes
General Manager of Assets and
Finance/Chief Financial Officer
Digitally Signed Jun 3, 15

Recommended by the C.A.O.

Bob Johnston
Interim Chief Administrative Officer
Digitally Signed Jun 3, 15

A further requirement of any audit is to obtain sufficient understanding of internal controls and to test those internal controls so that the auditor can place reliance on them as part of the audit. The Audit Findings Report comments on weaknesses that have been identified as part of the audit and those identified in the report relate to information technology recommendations.

City of Greater Sudbury

*2014 year-end report
to the Audit Committee*

*Prepared as of
May 20, 2015*





May 20, 2015

Members of the Audit Committee
City of Greater Sudbury

Dear Members of the Audit Committee:

We have substantially completed our audit of the consolidated financial statements of the City of Greater Sudbury (the City) prepared in accordance with Canadian generally accepted accounting standards as established by the Public Sector Accounting Board (Public Sector GAAP) for the year ended December 31, 2014. We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included as Appendix A.

We prepared the accompanying report to assist you in your review of the financial statements. It includes an update on the status of our work as well as a discussion on the significant accounting and financial reporting matters dealt with during the audit process.

The matters raised in this report are only those that have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. This report has been prepared solely for the use of the Audit Committee, Council and management, and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on it.

We will review the key elements of this report at the upcoming meeting and discuss our findings with you.

We would like to express our sincere thanks to the management and the staff of the City who have assisted us in carrying out our work and we look forward to our meeting on June 16, 2015. If you have any questions or concerns prior to the Audit Committee meeting, please do not hesitate to contact me in advance.

Yours very truly,

PricewaterhouseCoopers LLP

Michael Hawtin
Partner
Audit and Assurance Group

c.c.: Ms. Lorella Hayes, General Manager of Assets and Finance/Chief Financial Officer

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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The matters raised in this and other reports that will flow from the audit are only those that have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. Comments and conclusions should only be taken in context of the financial statements as a whole, as we do not mean to express an opinion on any individual item or accounting estimate. This report has been prepared solely for your use. It was not prepared for, and is not intended for, any other purpose. No other person or entity shall place any reliance upon the accuracy or completeness of statements made herein. PwC does not assume responsibility to any third party, and, in no event, shall PwC have any liability for damages, costs or losses suffered by reason of any reliance upon the contents of this report by any person or entity other than you.

1. Executive summary

a. Status of the audit

We have substantially completed our audit of the 2014 consolidated financial statements (the financial statements).

This document includes the required communications between an auditor and the Audit Committee.

We performed our audit using the timeline and plan discussed with you at the January 13, 2015 Audit Committee meeting.

The following items will need to be completed/ received before we can issue our auditor's report. We will provide an update on the status of these items at our upcoming meeting.

Outstanding items

- i. Legal letters from lawyers.
- ii. Completion of subsequent event procedures up to the date of our auditor's report.
- iii. Receipt of signed management representation letter.
- iv. Approval of the financial statements by Council.

b. Matters for discussion

Discussion item	Summary	For further reference
Significant audit, accounting and financial reporting matters	<ul style="list-style-type: none"> Section 2 of our report discusses the areas that we focused on in conducting our audit and significant accounting matters which we believe should be brought to your attention. These areas comprise the following: <ul style="list-style-type: none"> Significant estimates and areas of management judgment; Revenue recognition – Government transfers; and Management override of controls. 	Section 2
Summary of unadjusted and adjusted items	<ul style="list-style-type: none"> There are no unadjusted or adjusted items as a result of our audit. In our opinion, the financial statements, taken as a whole, are free of material misstatement. A copy of our draft auditor's report can be found in Appendix A. 	Section 3 and Appendix A

2. *Significant audit, accounting and financial reporting matters*

To prepare the financial statements, management needs to select accounting policies as well as make critical accounting estimates and disclosures that may involve significant judgment and measurement uncertainty. These matters can significantly impact the City's reported results.

We are responsible for discussing with the Audit Committee our views about the significant qualitative aspects of the City's accounting practices, including accounting policies, the accounting estimates and financial statement disclosures.

We are sharing our views with you to facilitate an open dialogue. Consider our comments and views in this report in the context of the consolidated financial statements taken as a whole, and not as an opinion on any individual item or accounting estimate.

<i>Item 1</i>	<i>Significant estimates and areas of management judgment</i>
Background information	<p>There are a number of complex and significant accounting estimates that require management judgment in preparing the City's consolidated financial statements as at December 31, 2014.</p> <p>Significant provisions and estimates include:</p> <ul style="list-style-type: none"> a) provision for property tax appeals; b) landfill closure and post closure costs for active and inactive landfill sites; c) liability for contaminated sites; and d) employee benefit obligations. <p>Management has processes and controls in place for formulating these estimates as summarized below:</p> <ul style="list-style-type: none"> a) The provision for property tax appeals is based on management's estimates of losses relating to successful appeals by taxpayers. The provision is based on historical arbitration experience as adjusted by management based on specific facts and circumstances related to open appeals at year-end. b) Management, through the use of internal and external specialists, determines the landfill liabilities by estimating the costs to be incurred during the closure and post-closure periods. The liability is calculated using significant estimates for discount and inflation rates as well as estimates of expenditures for closure and post-closure care of the landfill sites, site capacity and remaining useful lives and the post-closure care period. c) A listing of contaminated or potentially contaminated sites is maintained and monitored by management, in consultation with the City's real estate and asset services group, for those assets that are no longer in productive use or assets where there may be a potential change in the intended use that may give rise to an obligation under this accounting standard. Management reviewed the listing of sites under the scope of this standard at year-end and determined that at present they do not need to recognize any liabilities associated with contaminated sites under the accounting standard PS 3260.

	<p>d) The City engages a third party actuary to determine the liability for post-employment benefit obligations for sick leave benefits, WSIB and other post-retirement benefits. The liabilities associated with these employee benefit arrangements are calculated by the City's actuary and involve the use of significant assumptions, including but not limited to, the discount rate, salary growth, inflation and health care increases for dental, drugs and medical costs.</p>
PwC's views	<p>We held discussions with management responsible for establishing these estimates to understand the key assumptions as well as validate and benchmark these judgments against our expectations as summarized below:</p> <p>a) For property taxes we corresponded directly with Municipal Property Assessment Corporation (MPAC) to obtain the assessment of properties used in determining property taxation revenue for the year to assist in our validation of management's calculations.</p> <p>We also validated the historical arbitration information with respect to the rate of successful appeals to assess the reasonability of the estimates used by management at year-end. We compared management's "at-risk" rates used to calculate the provision to the average rates as calculated from the historical arbitration information for the past six years and found them to be comparable. We also reviewed management's adjustments to the provision for specific open appeals and found them to be reasonable.</p> <p>b) For landfill liabilities, our audit approach involved the reliance on the work of the City's external environmental specialist for their calculation of the landfill liability and expense for the year. In accordance with generally accepted auditing standards, we relied on the environmental specialist for its calculation of the landfill liability and expense for the year.</p> <p>Our audit procedures mainly consist of reviewing the reasonableness of the data and assumptions used by the specialist, including benchmarking the data to prior years and obtaining explanations for significant variances and independent validation of the assumptions used for inflation and discount rates.</p> <p>We met with management responsible for establishing these provisions to understand the key assumptions and validate and benchmark these estimates against our own expectations. We tested management's calculations, supporting data and assumptions used in these calculations.</p> <p>We have no matters to report as a result of completing these audit procedures.</p> <p>c) For liabilities related to contaminated sites, our audit approach involved discussions with financial and non-financial management within the City that have responsibility for addressing matters related to contaminated sites to assess the City's process with respect to the identification of contaminated or potentially contaminated sites under the scope of PS 3260. We note that the review of contaminated and potentially contaminated sites involves management judgment with respect to the assets' intended use as well as management's assessment regarding the likelihood of expected loss as outlined in the standard. We reviewed management's assessment of contaminated or potentially contaminated sites with respect to the recognition and measurement criteria under the standard. Where third party assessments were available, we reviewed the reports from 3rd party specialists to support management's conclusions. We found management's approach and methodology with respect to the identification of contaminated sites reasonable and are in agreement with the accounting conclusions reached.</p>

	<p>d) For employee benefit obligations, our audit approach involves the reliance on the work of the City's actuary. In accordance with generally accepted auditing standards, we relied on the actuary for its calculation of the employee benefit liabilities and expense for the year. Our audit procedures mainly consist of reviewing the reasonableness of the data and assumptions used by the actuary and do not include a re-performance of the actuarial calculations. Accordingly, we performed the following audit procedures when relying on the work of specialists:</p> <ul style="list-style-type: none"> • Tested the participant data provided to the actuary by comparing the data to source documents maintained by the City's payroll department; • Assessed the significant actuarial assumptions (i.e. discount rates, medical cost increases, etc.) to determine that they are within a reasonable range and consistent with the provisions in the City's employee benefit plans; and • Assessed that the City is in compliance with the appropriate accounting principles for the calculation, presentation and disclosure of the employee benefit obligations in the consolidated financial statements of the City. <p>We have no matters to report as a result of completing these audit procedures.</p>
Item 2	<i>Revenue recognition - Government transfers</i>
Background information	<p>Revenue is recognized from government transfers when the transfer is authorized and all eligibility criteria have been met (if applicable), except when and to the extent that the transfer gives rise to an obligation that meets the definition of a liability under Public Sector GAAP. The recognition of revenue is based on specific contracts and arrangements with governmental organizations and can be subject to management judgment with respect to the timing of revenue recognition.</p> <p>The City has established revenue recognition accounting policies in accordance with the accounting standards for the Public Sector.</p> <p>In addition, the City has processes, controls and other procedures in place to ensure that revenue is appropriately measured and recognized, including monitoring the activity within deferred revenue accounts and obligatory reserve funds during the year.</p> <p>The City conducted an annual review of significant agreements with other governments, including a review of eligibility criteria and stipulations (if any), to ensure that government transfers are appropriately accounted for under the Handbook Section PS 3410.</p>
PwC's views	<p>During our audit, we updated our understanding of management processes and internal controls surrounding revenue recognition and reassessed the accounting policies adopted by the City for recognizing revenue and ensure that they are in accordance with Canadian GAAP.</p> <p>We performed substantive tests of detail over revenue, accounts receivable and deferred revenue accounts including examination of reconciliations of deferred revenue accounts (by obligatory reserve fund), obtaining confirmation of annual funding with third party sources (i.e. various Ministries) and testing other movements in the deferred revenue accounts to supporting documentation (i.e. agree to contracts, bank deposits, budgets and progress payments, etc.) and to the corresponding entry in the revenue general ledger accounts.</p>

	<p>We also reviewed management's analysis of the eligibility criteria and stipulations for material funding agreements and tested a sample to ensure compliance with the revenue recognition provisions contained in PS 3410.</p> <p>We have no matters to report as a result of completing these audit procedures.</p>
Item 3	<i>Management override of controls</i>
Background information	<p>Canadian auditing standards require auditors to plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by error or fraud.</p> <p>The likelihood of not detecting a material misstatement resulting from fraud is higher than the likelihood of not detecting a material misstatement resulting from error, because fraud may involve collusion as well as sophisticated and carefully organized schemes designed to conceal it.</p> <p>We note that the City has developed policies and procedures to ensure appropriate segregation of duties to mitigate the risk of fraud and management override of controls.</p> <p>In addition, the City has policies in place to prevent and detect fraud, including an employee handbook (provided to all employees) that comprises employment rules and policies including areas related to conduct at work, conflict of interest, duty of fidelity, compliant process as well as an Auditor General Office, processes relating to the review and approval of manual journal entries and management reviews of the divisional operating results of the City.</p>
PwC's views	<p>During our audit, we executed the following procedures in order to fulfill our responsibilities:</p> <ul style="list-style-type: none"> • Inquired of management, legal offices and others related to any knowledge of fraud or suspected fraud; • Performed test of details primarily over revenue, including consideration of unusual or unexpected relationships; • Incorporated an element of unpredictability in the selection of the nature, timing and extent of our audit procedures; • Performed additional required procedures to address the risk of management's override of controls, including: <ul style="list-style-type: none"> ○ examined journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud; ○ reviewed accounting estimates for biases that could result in material misstatement due to fraud; and ○ evaluated the business rationale of significant unusual transactions. <p>As a result of completing these procedures, we did not encounter any instances of management override of controls.</p>

3. Summary of unadjusted and adjusted items

Our responsibility is to issue an opinion as to whether the financial statements are free of material misstatement.

Taken as a whole, the financial statements are free of material misstatement. Pending the completion, to our satisfaction, of the outstanding matters identified in Section 1 we are prepared to issue an unqualified opinion on the financial statements.

Under Canadian auditing standards, we are required to communicate to you the unadjusted items (including disclosures) and the effect that they may have on our opinion and to request that unadjusted items be corrected.

We did not identify any unadjusted or adjusted items during the audit.

4. *Other required communications*

Auditing standards require that the external auditor communicate certain matters to the Audit Committee that may assist you in overseeing management's financial reporting and disclosure process.

Below is a summary of how this applies to you:

<i>Matter to be communicated</i>	<i>Our response</i>
Management's representations	We need to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix B.
Independence	We confirm our independence with respect to the City in our annual independence letter attached as Appendix C to this report.
Significant deficiencies in internal control	See Appendix D of this report for the observations and recommendations resulting from our review of the information technology (IT) internal controls during the 2014 audit. None were noted to be significant.
Fraud and illegal acts	No fraud involving senior management or employees with a significant role in internal control or that would cause a material misstatement of the financial statements and no illegal acts came to our attention.

5. *Internal control recommendations*

The purpose of our audit was so that we could express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

In prior years, we issued a report summarizing our IT internal control observations and recommendations as they related to the 2011 and 2012 audits. Most of them were remediated by management in 2013.

During the 2014 audit, two IT internal control observations were identified, of which one had been reported in prior years and the other was a new observation during fiscal 2014. A summary of those observations and related recommendations are noted in Appendix D.

In addition, as a value added service to the City this year, given the current importance of information security, we performed a review of the City's Cybersecurity policies and procedures primarily through enquiry of key IT management personnel and comparing the responses to our enquiries with best practices in this area. We are in the process of completing this review and will issue a report to management summarizing our views for management's consideration later in the 2015 year.

6. 2014 audit fees

In accordance with our response to the City's request for a quote dated June 2, 2014 and our audit engagement letter dated October 21, 2014 covering the two-year contract period for the year ended December 31, 2014 and the year ending December 31, 2015, our fees for the 2014 audit of the financial statements of the City are \$91,000.

7. Accounting and financial reporting update

As part of our commitment to quality service, we now draw your attention to new and emerging accounting, auditing and regulatory developments on City of Greater Sudbury's financial reporting:

a. Financial instruments and financial statement presentation

Section PS 3450, Financial Instruments, is effective for governments for periods beginning on or after April 1, 2016. This section provides guidance on the recognition, measurement, presentation and disclosure of financial instruments. Derivatives and portfolio investments that are equity instruments quoted in an active market are measured at fair value. Other financial instruments may be elected as measured at fair value under certain conditions.

Concurrent with the adoption of Section PS 3450, organizations must adopt Section PS 1201, Financial Statement Presentation (replacing Section PS 1200), Section PS 2601, Foreign Currency Translation (replacing PS 2600) and Section PS 3041, Portfolio Investments (replacing PS 3040). These new standards require presentation of a new primary statement – the statement of re-measurement gains and losses – reporting various unrealized gains and losses and may also change the accounting for long-term foreign currency monetary items.

b. Related party disclosures

Section PS 2200, Related Party Disclosures, was issued in March 2015 and is effective for fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted and this section would be applied prospectively. This section provides guidance on the definition and identification of related parties including key management personnel and establishes disclosures required for related party transactions.

c. Inter-entity transactions

Section PS 3420, Inter-entity Transactions, was issued in March 2015 and is effective for fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted. This standard establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. This section provides guidance on the recognition, measurement, presentation and disclosure of inter-entity transactions.

d. Other projects

Other significant projects that are in progress by the Public Sector Accounting Board:

- *Restructurings* – Restructurings may take many forms including amalgamations, transfers and reorganizations. This project aims to create a standard to define restructuring transactions and provide guidance on the recognition and measurement of assets and liabilities subject to restructuring as well as accounting for restructuring costs. A statement of principles was issued in February 2013, which proposed that restructurings involve the transfer of an integrated set of assets, liabilities and related responsibilities without the exchange of significant consideration based on the fair values of assets and liabilities transferred. Restructuring transactions are to be measured based on carrying values with limited adjustments. An exposure draft for a new standard was issued in August 2014. In March 2015, after discussing the responses and the changes proposed by staff to address the comments, PSAB approved a new handbook section, which is expected to be released in the second quarter of fiscal 2015.

- *Assets* – The objective of this project is to provide a standard that addresses the basic concepts and definition of assets, similar to the standard that already exists for liabilities (Section PS 3200). PSAB issued a statement of principles in August 2013 that proposes additional guidance on the definition of assets, disclosure requirements for assets and definitions of and standards on disclosure requirements for contingent assets and contractual rights. In August 2014, PSAB issued an exposure draft that proposed three new standards. After discussing the responses and the changes proposed by the task force to address the comments, PSAB approved three new Handbook Sections — *Assets*, *Contingent Assets* and *Contractual Rights*. A new handbook release is expected in fiscal 2015.
- *Asset Retirement Obligations* – This project will address the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of long-lived tangible capital assets currently in productive use. In August 2014, PSAB issued a Statement of Principles that addresses the accounting and reporting of retirement obligations associated with tangible capital assets controlled by a public sector entity. PSAB is seeking comments on its Statement of Principles by November 21, 2014. An exposure draft for a new standard is expected in the second half of fiscal 2015. Our audit national public sector leader is the chair of the PSAB task force on this project.
- *Revenues* – This project is to develop additional principles for revenue recognition principles that apply to sources of revenue other than government transfers and tax revenue. It is a wide-reaching project seeking to address recognition, measurement and presentation of revenues that are common in the public sector. In August 2013, PSAB issued a statement of principles containing proposals that will affect the reporting of a broad range of revenues. PSAB discussed issues identified by staff based on a preliminary review of responses to its statement of principles and noted that further research on these issues will be required. A request for information is expected to be issued in the third quarter of fiscal 2015.

Appendix A: Draft independent auditor's report



June @@, 2015

Independent Auditor's Report

To the Members of Council, Inhabitants and Ratepayers of the City of Greater Sudbury

We have audited the accompanying consolidated financial statements of the City of Greater Sudbury, which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the City of Greater Sudbury as at December 31, 2014 and the results of their operations, changes in its net financial assets and its cash flows and for the year then ended in accordance with Canadian public sector accounting standards.

Other matters

The accompanying financial statement schedules as at and for the year ended December 31, 2014 are presented as supplementary information only and are not a required part of the basic consolidated financial statements. The information in these schedules has been subject to audit procedures only to the extent necessary to express an opinion on the consolidated financial statements of the City of Greater Sudbury.

DRAFT**Chartered Professional Accountants, Licensed Public Accountants**

Appendix B: Management representation letter

[Client letterhead]

June @@, 2015

PricewaterhouseCoopers LLP
Attention: Mr. Michael Hawtin
PwC Centre
354 Davis Road, Suite 600
Oakville ON L6J OC5

Dear Mr. Hawtin:

We are providing this letter in connection with your audit of the consolidated financial statements (the financial statements) of the City of Greater Sudbury (the City) as at December 31, 2014 and for the year then ended for the purpose of expressing an opinion as to whether such financial statements are presented fairly, in all material respects, the financial position, the financial performance, the results of its operations and the cash flows in accordance with the requirements of Canadian public sector accounting standards.

Management responsibilities

We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated October 21, 2014. In particular, we confirm to you that:

- We are responsible for the preparation and the fair presentation of the financial statements in accordance with the requirements of Canadian public sector accounting standards;
- We are responsible for designing, implementing and maintaining an effective system of internal control over financial reporting to enable the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error. In this regard, We are responsible for establishing policies and procedures that pertain to the maintenance of accounting systems and records, the authorization of receipts and disbursements, the safeguarding of assets and the reporting of financial information in accordance with the requirements of Canadian public sector accounting standards;
- We have provided you with all relevant information and access, as agreed in the terms of the audit engagement; and
- All transactions have been recorded in the accounting records and are reflected in the financial statements.

We confirm the following representations:

Preparation of the financial statements

The financial statements include all disclosures necessary for fair presentation in accordance with the requirements of Canadian public sector accounting standards; and disclosures otherwise required to be included therein by the laws and regulations to which we are subject.

We have appropriately reconciled our books and records (e.g. general ledger accounts) underlying the financial statements to their related supporting information (e.g. sub ledger or third party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the financial statements. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a balance sheet account, which should have been written off to a profit and loss account and vice versa.

All consolidating entries have been properly recorded. All inter-governmental unit accounts have been eliminated or appropriately measured and considered for disclosure in the financial statements.

Accounting policies

We confirm that we have reviewed our accounting policies and, having regard to the possible alternative policies, our selection and application of accounting policies and estimation techniques used for the preparation of the financial statements is appropriate in our particular circumstances to be prepared fairly, in all material respects, in accordance with the requirements of Canadian public sector accounting standards.

Internal controls over financial reporting

We have designed disclosure controls and procedures to ensure material information relating to the City, including its consolidated subsidiaries, is made known to us by others within those entities.

We have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with the requirements of Canadian public sector accounting standards.

We have performed an assessment of the effectiveness of our internal controls over financial reporting and concluded that we have maintained effective disclosure controls and procedures and internal control over financial reporting as at December 31, 2014.

Disclosure of information

We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters including:
 - contracts and related data; and
 - information regarding significant transactions and arrangements that are outside of the normal course of business;
- Minutes of the meetings of Council and related committees. The most recent meetings held were City Council on April 14, 2015 and Planning Committee on April 27, 2015.
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

Completeness of transactions

All contractual arrangements entered into by us with third parties have been properly reflected in the accounting records or/and, where material (or potentially material) to the financial statements, have been disclosed to you. We have complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Fraud

We have disclosed to you:

- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all information in relation to fraud or suspected fraud, of which we are aware, affecting us, involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements; and
- all information in relation to any allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators or others.

Compliance with laws and regulations

We have disclosed to you all aspects of laws, regulations and contractual agreements that may affect the financial statements, including actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

We are not aware of any illegal or possibly illegal acts committed by our directors, officers or employees acting on our behalf.

Accounting estimates and fair value measurements

Significant assumptions used by the City in making accounting estimates, including fair value accounting estimates, are reasonable.

For recorded or disclosed amounts in the financial statements that incorporate fair value measurements, we confirm that:

- The measurement methods are appropriate and consistently applied;
- The significant assumptions used in determining fair value measurements represent our best estimates, are reasonable and have been consistently applied;
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements; and
- The significant assumptions used in determining fair value measurements are consistent with the City's planned courses of action. We have no plans or intentions that have not been disclosed to you, which may materially affect the recorded or disclosed fair values of assets or liabilities.

Significant estimates and measurement uncertainties known to management that are required to be disclosed in accordance with CPA Canada Public Sector Accounting, Handbook Section 2130, *Measurement Uncertainty*, have been appropriately disclosed.

Related parties

We confirm that we have disclosed to you the identity of the City's related parties as defined by the requirements of Canadian Auditing Standard 550, Related Parties, and all the related party relationships and transactions.

The list of related parties summarized in note 1 of the financial statements of the City accurately and completely describes our related parties and the relationships with such parties.

Going concern

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements (e.g. to dispose of the business or to cease operations).

Assets and liabilities

We have satisfactory title or control over all assets. All liens or encumbrances on our assets and assets pledged as collateral.

Receivables recorded in the financial statements represent bona fide claims against debtors for sales or other charges arising on or before the balance sheet date and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts that are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.

We have recorded or disclosed, as appropriate, all liabilities, in accordance with Canadian public sector accounting standards. All liabilities and contingencies, including those associated with guarantees, whether written or oral, under which we are contingently liable in accordance with the requirements of Canadian public sector accounting standards have been disclosed to you and are appropriately reflected in the financial statements.

Litigation and claims

All known actual or possible litigation and claims, which existed at the financial statements date or exist now, have been disclosed to you and accounted for and disclosed in accordance with Canadian public sector accounting standards, whether or not they have been discussed with legal counsel.

Misstatements detected during the audit

Certain representations in this letter are described as being limited to those matters that are material. Items are also considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We confirm that the financial statements are free of material misstatements, including omissions.

We confirm there we are not aware of any are no uncorrected misstatements. There is no adjusted misstatement identified during your audit.

Events after the financial statements

We have identified all events that occurred between the statement of financial position date and the date of this letter that may require adjustment of, or disclosure in, the financial statements, and have effected such adjustment or disclosure.

Cash and banks

The books and records properly reflect and record all transactions affecting cash funds, bank accounts and bank indebtedness of the City.

All cash balances are under the control of the City, free from assignment or other charges, and unrestricted as to use, except as disclosed to you.

The amount shown for cash on hand or in bank accounts excludes trust or other amounts, which are not the property of the City.

All cash and bank accounts and all other properties and assets of the City of which we are aware are included in the financial statements as at December 31, 2014.

Restricted assets and revenues

All assets and revenues subject to restrictions are disclosed in the financial statements.

All externally restricted inflows have been recognized as revenue in the year in which the resources were used for the purposes specified. All externally restricted inflows received before this criterion has been met have been reported as liabilities until the resources are used for the purposes specified.

Accounts receivable

All amounts receivable by the City were recorded in the books and records.

Amounts receivable amounted to \$46.3 million and are considered to be fully collectible, except to the extent of \$1.8 million, in respect of which, a full allowance has been made in the accounts.

All receivables were free from hypothecation or assignment as security for advances to the City.

Receivables recorded in the financial statements represent bona fide claims against debtors' charges arising on or before the statement of financial position date. Receivables classified as current do not include any material amounts that are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.

Financial assets (other than loans and receivables)

All securities which were owned by the City were recorded in the accounts.

All income earned on the financial assets has been recorded in the accounts, and any interest income has been accrued using the effective interest rate method.

We are not aware of any objective evidence of impairment that would result in the recognition of an impairment loss on any financial asset.

You have been informed of the acquisition of or the formation of all government units, business enterprises, partnerships, joint ventures or other participations during the year.

All transactions with governmental units, business enterprises, partnerships or joint ventures have been recorded in the accounts presented to you. All investments in and advances to governmental units, business enterprises, partnerships, joint ventures or other participations are appropriately recorded, and there is no evidence of impairment in value below the resulting balances shown in the financial statements.

There has been no activity in any dormant or inactive government units, business enterprises, partnerships, joint ventures or other participations, except as disclosed to you.

The modified equity method is used to account for the City's investment in the following government business enterprises; Sudbury Airport Community Development Corporation and Greater Sudbury Utilities Inc.

Tangible capital assets

All charges to tangible capital asset accounts represented the actual cost of additions to tangible capital assets.

All contributed tangible capital assets have been recorded at fair value at the date of the contribution.

No significant tangible capital asset additions were charged to repairs and maintenance or other expense accounts.

Book values of tangible capital assets sold, destroyed, abandoned or otherwise disposed of have been eliminated from the accounts.

Tangible capital assets owned by the City are being depreciated on a systematic basis over their estimated useful lives, and the provision for depreciation was calculated on a basis consistent with that of the previous date.

All lease agreements covering assets leased by or from the City have been disclosed to you and classified as leased tangible capital assets or operating leases.

Leased tangible capital assets are being amortized on a systematic basis over the period of expected use.

There have been no events, conditions or changes in circumstances that indicate that a tangible capital asset no longer contributes to the City's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value. We believe that the carrying amount of the City's long-lived tangible capital assets is fully recoverable in accordance with CPA Canada Public Sector Accounting Handbook PS 3150.

We have reviewed our records and have recorded an appropriate value for all tangible capital assets (TCA) owned by the City. We believe all TCA's to which the future benefit accrues to the City are appropriately accounted for.

Long-term debt

All borrowings and financial obligations of the City of which we are aware are included in the financial statements as at December 31, 2014, as appropriate. We have fully disclosed to you all borrowing arrangements of which we are aware.

Deferred revenue

All material amounts of deferred revenue meet the definition of a liability and were appropriately recorded in the books and records.

Retirement benefits, post-employment benefits, compensated absences and termination benefits

All arrangements to provide retirement benefits, post-employment benefits, compensated absences and termination benefits have been identified to you and have been included in the actuarial valuation as required.

The details of all retirement benefits, post-employment benefits, compensated absences and termination benefits amendments since December 31, 2012, the date of the last actuarial valuation, have been identified to you.

The actuarial valuation dated December 31, 2012, incorporates management's best estimates, detailed as follows:

- a) The actuarial assumptions and methods used to measure liabilities and costs for financial accounting purposes for all post-retirement benefits are appropriate in the circumstances.
- b) The City does not plan to make frequent amendments to the post-retirement benefit plans.

All changes to the plan and the employee group and the fund's performance since the last actuarial valuation have been reviewed and considered in determining the post-retirement expense.

The City's actuaries have been provided with all information required to complete their valuation as at December 31, 2012 and where applicable, their extrapolation to December 31, 2014.

We confirm that the extrapolations are accurate and include the proper reflection of the effects of changes and events occurring subsequent to the most recent valuation that had a material effect on the extrapolation.

The employee future benefit costs, assets and obligations have been determined, accounted for and disclosed in accordance with CPA Canada Public Sector Accounting Handbook PS 3250, *Retirement Benefits* and CPA Canada Public Sector Accounting Handbook PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits*. In particular:

- a) The significant accounting policies that the City has adopted in applying CPA Canada Public Sector Accounting Handbook Section PS 3250 and CPA Canada Public Sector Accounting Handbook Section PS 3255 are accurately and completely disclosed in the notes to the financial statements.
- b) Each of the best estimate assumptions used reflects management's judgment of the most likely outcomes of future events.
- c) The best estimate assumptions used are, as a whole, internally consistent, and consistent with the asset valuation method adopted.
- d) The discount rate used to determine the accrued benefit obligation was determined by reference to the City's borrowing rate, at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments; or inherent in the amount at which the accrued benefit obligation could be settled.
- e) The assumptions included in the actuarial valuation are those that management instructed Mercer to use in computing amounts to be used by management in determining Post-employment Benefits, Compensated Absences and Termination Benefits and in making required disclosures in the above-named financial statements, in accordance with CPA Canada Public Sector Accounting Handbook Section PS 3250.
- f) In arriving at these assumptions, management has obtained the advice of a consulting actuary who assisted in reaching best estimates, but has retained the final responsibility for them.
- g) The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.
- h) The disclosure of the City's share of the risks and benefits under joint defined benefit plans, the total financial status of any joint plans, significant policies and a description of the unique nature and terms of any joint plans are accurate and complete.
- i) All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of benefit costs and obligations and as such have been communicated to you as well as to the actuary.

Statements of operations and net financial assets

All transactions entered into by the City have been recorded in the books and records presented to you.

All amounts have been appropriately classified within the statements of operations and net financial assets.

The accounting principles and policies followed throughout the year were consistent with prior period practices (except as disclosed in the financial statements).

We provided you a complete listing of government transfer agreements as part of our assessment on the impact of adopting CPA Canada Public Sector Accounting Handbook Section PS 3410, *Government Transfers*.

Government transfers

Transfers without eligibility criteria or stipulations have been recognized as revenue once the transfer has been authorized.

Transfers with eligibility criteria but without stipulations have been recognized as revenue once the transfer has been authorized and all eligibility criteria have been met.

Transfers with or without eligibility criteria but with stipulations have been recognized as revenue in the year the transfer has been authorized and all eligibility criteria have been met, except when, and to the extent that, the transfer gives rise to an obligation that meets the definition of a liability for the recipient government in accordance with CPA Canada Public Sector Accounting Handbook PS 3200, *Liabilities*.

Environmental matters

There are no liabilities or contingencies arising from environmental matters that have not already been disclosed to the auditor. We have provided you a listing of all locations which we believe are in the scope of PS 3260, *Liability for Contaminated Sites*.

Liabilities or contingencies related to environmental matters have been recognized, measured and disclosed, as appropriate, in the financial statements.

We have considered the effect of environmental matters and the carrying value of the relevant assets is recognized, measured and disclosed, as appropriate, in the financial statements.

All material commitments related to environmental matters have been measured and disclosed, as appropriate in the financial statements and, with respect to contaminated sites, have been measured and disclosed in accordance with CPA Canada Public Sector Accounting Handbook Section PS 3260.

Use of a specialist

We assume responsibility for the findings of other specialists in evaluating the employee benefit obligation and landfill closure and post-closure liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

Minutes

All matters requiring disclosure to or approval by City Council has been brought before them at appropriate meetings and are reflected in the minutes.

General

There are no proposals, arrangements or actions completed, in process, or contemplated that would result in the suspension or termination of any material part of the City's operations.

Information relative to any matters handled on behalf of the City by any legal counsel, including all correspondence and other files, has been made available to you.

Segment disclosures

Pursuant to CPA Canada Public Sector Accounting Handbook PS 2700, *Segment Disclosures*, in identifying segments, management has considered the definition of a segment and other factors, including:

- the objectives of disclosing financial information by segment;
- the expectations of members of the community and their elected or appointed representatives regarding the key activities and accountabilities of the government;
- the qualitative characteristics of financial reporting as set out in CPA Canada Public Sector Accounting Handbook PS 1000, *Financial Statement Concepts*;
- the homogeneous nature of the activities, service delivery, or recipients of the services;
- whether the activities relate to the achievement of common outcomes or services as reflected in government performance reports and plans; whether discrete financial information is reported or available; and
- the nature of the relationship between the government and its organizations (within the reporting entity).

Management has identified following operating segments: General Government, Transportation Services, Protection Services, Environmental Services, Health and Social Services, Recreation and Cultural Services and Planning and Development Services.

The financial statements disclose all the relevant factors used to identify the City's reportable segments.

There has been no change in accounting policies related specifically to segment reporting.

Events after the balance sheet date

We have identified all events that occurred between the statement of financial position date and the date of this letter that may require adjustment of, or disclosure in, the financial statements, and have effected such adjustment or disclosure.

Yours truly,

City of Greater Sudbury

Bob Johnston, Interim Chief Administration Officer

Lorella Hayes, General Manager of Assets and Finance/Chief Financial Officer

Appendix C: Independence letter



May 20, 2015

Members of the Audit Committee
City of Greater Sudbury
200 Brady Street
Sudbury ON P3A 5P3

Dear Members of the Audit Committee:

We have been engaged to audit the consolidated financial statements of the City of Greater Sudbury (the City) for the year ended December 31, 2014.

Canadian generally accepted auditing standards require that we communicate at least annually with you regarding all relationships between the City, its management and us that may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by Chartered Professional Accountants of Canada and applicable legislation covering such matters as:

- a. holding a financial interest, either directly or indirectly, in a client;
- b. serving as an officer or director of a client;
- c. performance of management functions for an assurance client;
- d. personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client or its management;
- e. economic dependence on a client;
- f. long association of senior personnel with a listed entity audit client;
- g. audit committee approval of services to a listed entity audit client; and
- h. provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since June 3, 2014, the date of our last letter.

We are not aware of any relationships between the City or its management and PricewaterhouseCoopers LLP that may reasonably be thought to bear on our independence that have occurred from June 3, 2014 to May 20, 2015.

We hereby confirm that we are independent with respect to the City within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Canada as of May 20, 2015.

PricewaterhouseCoopers LLP
PwC Centre, 354 Davis Road, Suite 600, Oakville, Ontario, Canada L6J 0C5
T: +1 905 815 6300, F: +1 905 815 6499, www.pwc.com/ca

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



This report is intended solely for the use of the Audit Committee, Council, management and others within the City and should not be used for any other purpose.

We look forward to discussing with you the matters addressed in this letter at our upcoming meeting on June 16, 2015.

Yours very truly,

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Appendix D: Internal control recommendations

Internal Control Recommendations

City of Greater Sudbury

Year ended
December 31, 2014





May 20, 2015

Ms. Lorella Hayes
General Manager of Assets and
Finance/Chief Financial Officer
City of Greater Sudbury
200 Brady Street
Sudbury ON P3A 5P3

Dear Ms. Hayes:

**Management Letter
2014 Audit of the City of Greater Sudbury**

We have substantially completed our audit examination of the consolidated financial statements of the City of Greater Sudbury (the City). Our audit was directed at providing the basis for our opinion on the consolidated financial statements for the year ended December 31, 2014. In prior years, we had noted several areas where we believed that controls and procedures could be improved and accordingly we had provided management with recommendations designed to address those matters. Most of them were remediated by management in 2013. During the 2014 audit, two internal control observations were identified, of which one had been reported in prior years and the other was a new observation during fiscal 2014. A summary of those observations and related recommendations is set forth below.

Our examination was designed in accordance with Canadian generally accepted auditing standards to enable us to express an opinion on the consolidated financial statements as a whole and our work involved evaluating only those systems and internal controls in your organization upon which we intend to rely. The objective of an audit is to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. Therefore, this memorandum does not necessarily include all matters that may be of interest to management, which a more extensive or special internal controls examination might develop. It is not designed to identify and cannot necessarily be expected to uncover fraud, defalcations and other irregularities.

The responsibility for the maintenance of an adequate system of internal control, as well as for the prevention and detection of irregularities rests with management.

This communication is prepared solely for the information of management and is not intended for any other purpose. We accept no responsibility to a third party who uses this communication.

*PricewaterhouseCoopers LLP
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T: +1 905 815 6300, F: +1 905 815 6499, www.pwc.com/ca*

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



We would like to take this opportunity to thank the management and staff of the City of Greater Sudbury for the co-operation that we received during the course of our audit. Please do not hesitate to contact us if there are any matters in this letter that you would like to discuss further.

Yours truly,

PricewaterhouseCoopers LLP

Michael Hawtin
Partner
Audit and Assurance Group

Encl.

Low Risk

1) Formal policies and procedures re: logical security, change management and IT operations processes

Observation

This was an observation identified in a prior year. It was noted during our examination of the City's information technology policies and procedures that logical security policies and incident management policies were drafted; however these policies are not yet finalized and are subject to management review and approval. We also note that there was no change management policy document.

Impact

There is a risk that the policies and procedures in this area cannot be implemented and enforced as they are not approved by the appropriate level of management.

Recommendation

We recommend management approve the policies and procedures for logical security, change management and IT operations processes.

Management's response

The IT division has developed these policies, which are in draft form and currently being reviewed. The Legal department is actively reviewing these policies and will complete their review by the end of May 2015. Information Technology will then complete any required changes with all stakeholders by the next internal quarterly audit review of the ERP software systems in mid-July.

Low Risk

2) Updates to work order and timely closure of work orders

Observation

Out of 5 work order samples that were selected for testing purposes within the HRMS application, for one sample work order (WO77141), the evidence pertaining to approval and testing were not retained within the work order by the City's IT department. Based on our testing and subsequent discussion with management, it was further noted that the functional team had performed the testing and had provided approval to promote the change as part of the Bundle deployment that occurred during Sept 2014; however, updates to the work order were not made to reflect the testing and approval provided by the functional team. It was further noted that the work order was still open at the time of testing even though the changes were promoted to production.

Recommendation

Efforts should be taken by the City's IT department to update the work order periodically and evidences pertaining to testing and approval must be retained within the ticket. Also, the work orders should be closed off by the City's IT department in a timely manner as soon as changes to production are performed.

Management Response

Management agrees with the recommendation. Staff is implementing changes to better document issues resulting from bundle changes to provide proper testing and authorizations. Further, changes have already been made to the City's quarterly audits to include review of open work orders to assure they are closed off in a timely manner once changes to production are performed.

