



# The City of Greater Sudbury

Presentation of the Audit  
Plan for the year ended  
December 31, 2014

## Agenda

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## 1. 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

## 2. Objective of an audit

The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

In conducting an audit of financial statements, the overall objectives of the auditor are:

- (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- (b) To report on the financial statements, and communicate as required by Canadian Auditing Standards, in accordance with the auditor's findings.

### 3. Scope of our services

**Primary responsibility** – As the external auditors, our primary responsibility is to form and express an opinion on the City's consolidated financial statements for the year ended December 31, 2014. City's management is responsible for preparing the consolidated financial statements in accordance with the Canadian Public Sector Accounting Standards.

- We will conduct our audit in accordance with Canadian Generally Accepted Auditing Standards. Those standards require that we comply with strict independence and ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement
- Will also discuss significant developments in public sector accounting and provide management our views and insights
- Our audit engagement letter as independent auditor of the City of Greater Sudbury (the City) is included in our audit plan

## 4. When will we do the audit?

Audit planning	
Audit planning (including developing the audit approach)	September / October 2014
Presentation of audit plan to the Audit Committee	January 2015
Audit	
Interim audit fieldwork - City and related agencies and boards	September – November 2014
Year-end audit fieldwork – City and related agencies and boards	March – April 2015
Clearance meetings with management and PwC	May 2015
Finalization of consolidated financial statements and year-end Audit Committee meeting	June 16, 2015

## 4. When will we do the audit?

### Audit Services Guideline:

- Outlines our commitment to the City, expectations of the City staff and our audit services and what may be considered additional services
- Any additional services will be agreed upfront with management and communicated to the Audit Committee
- A copy of this guideline is included in Appendix B of our audit plan for your reference

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## 5. How we will do the audit?

### Our audit approach:

- Starts with updating our understanding of the City
  - Focus on new developments and key issues
  - Considers management's monitoring of controls and business processes
- Considers audit risks
  - Identify significant audit risks, share our perspectives, obtain management feedback and ensure our audit is tailored to these risks
- Uses internal and external specialists
  - Internal pension benefits and information systems specialists, will be integrated into our team to assist in our audit
  - External specialists (i.e. actuaries, environmental specialists) will assist with obtaining sufficient and appropriate audit evidence over certain account balances and transactions



## 5. How we will do the audit?

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

- 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

## 5. How we will do the audit?

### 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 will be able to place a higher degree of reliance on the City's computer systems for the purposes of the fiscal 2014 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.).

## 5. How we will do the audit?

### 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.

## 5. How we will do the audit?

### Our risk analysis:

- Significant 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:

Revenue Recognition – Government Transfers  Revenue recognized from government transfers is subject to management judgment with respect to the timing of revenue recognition.	<ul style="list-style-type: none"><li>– Significant revenue stream</li><li>– Can be complex in nature</li><li>– Involves management judgement</li></ul>
Significant estimates: <ul style="list-style-type: none"><li>– Provisions (property taxes and receivables)</li><li>– Contingent liabilities</li><li>– Environmental liabilities (landfill sites)</li></ul>	<ul style="list-style-type: none"><li>– Subject to management judgment and assumptions</li><li>– Inherently higher risk</li></ul>
Management override of controls	<ul style="list-style-type: none"><li>– Need to consider risk of fraud</li></ul>

## 5. How we will do the audit?

### Materiality:

- 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 consolidated materiality set at \$8.7 million (1.75% of the City's 2014 budget operating expenditures)
- Report to the Audit Committee unadjusted and adjusted items greater than \$435 thousand (5% of materiality)
- Will conduct testing at levels that are below overall materiality taking into account risks

## 5. How we will do the audit?

### 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 2014

## 6. Where we will do the audit?

### Consolidation:

- PwC performs stand alone audits of many of the City's related entities as outlined in our engagement letter. These audits are conducted at their respective offices.
- For the consolidated audit of the City we will focus on the audits of the significant entities:
  - the City (non-consolidated);
  - Greater Sudbury Utility Inc.; and
  - Sudbury Housing Corporation
- We will rely on the audit work completed by these PwC teams to assist in forming our opinion on the consolidated financial statements of the City.

## 7. Fees

- Our fees are in accordance with our fee quote for 2014
- Audit fee for the 2014 audit of the consolidated City financial statements - \$91,000



## 8. What's new?

### Accounting Standards effective in 2014:

- The City early adopted PS 3260, Liability for contaminated sites in fiscal 2013. There are no new standards effective for fiscal 2014.

### Accounting Standards effective beyond 2014:

- Section PS 3450, Financial instruments and financial statement presentation (effective 2016). 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).

# The City of Greater Sudbury

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