



# *Greater Sudbury Utilities Inc.*

## 2012 Annual Audit

August 13, 2013



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# *Agenda*

- Client service team
- Service deliverables
- Materiality
- Audit approach
- Risk analysis
- Fraud risk
- Audit findings

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## ***Client service team***

<b>Name</b>	<b>Role</b>
Eric Clarke	Engagement leader
Grahame Keir	Engagement senior manager
Deanna Louth	Engagement manager
Lana Paton	Partner – Taxation
Dibyendu Dhar	Partner – Risk & Controls

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## ***Service deliverables – Audit objectives***

### Our responsibilities

- Form and express an opinion on the Company's consolidated financial statements
- Comply with ethical requirements
- Plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement

### Management's responsibility

- Prepare the financial statements in accordance with generally accepted accounting principles (GAAP) with the oversight of the Audit Committee

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## ***Service deliverables – Assurance deliverables***

We audit the financial statements of the following entities:

- Greater Sudbury Utilities Inc. (consolidated)
- Greater Sudbury Telecommunications Inc. (operating as Agilis Networks)
- Greater Sudbury Hydro Inc.

We also perform a review of the financial statements of Convergen Inc.

The following table summarizes selected financial information for the consolidated group for 2012:

Assets	\$139,071,159
Net income	\$1,744,997

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## ***Materiality***

Misstatements, including omissions, are considered to be material if they (individually or in aggregate with other misstatements) could be reasonably thought to influence the economic decisions of users, taken on the basis of the financial statements.

Our overall materiality for Greater Sudbury Utilities Inc. was based on a percentage of assets.

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## ***Audit approach – General***

Our audit approach is designed to allow us to execute a quality and efficient audit. We do this through:

- Gaining an understanding of the business;
- Assessing the impact of IT systems on internal controls;
- Identifying significant audit risks;
- The use of tax, IT systems and valuation specialists;
- Using professional judgment in assessing areas of subjectivity or estimates; and
- Leveraging reliance on the Company's internal controls.

Our approach is a mixture of controls reliance and substantive testing.

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## ***Audit approach – Greater Sudbury Hydro Inc.***

Some of the more significant procedures performed were:

### **Controls testing**

- Review and approval of monthly bank reconciliations;
- Review and approval of energy purchases;
- Review and approval of regulatory reporting submissions;
- Review and approval of purchase orders;
- Review and approval of invoices after they are matched to shipping documents and purchase orders; and
- Selected automated controls within the Northstar system



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## ***Audit approach – Greater Sudbury Hydro Inc. (cont'd)***

### **Substantive testing**

- Test energy volume reconciliation prepared by management;
- Test management's calculation of unbilled energy and distribution;
- Vouching of energy purchases to supporting documents on a sample basis;
- Vouching expenses to supporting documents on a sample basis;
- Perform detailed testing selected regulatory assets and liabilities; and
- Test significant intercompany balances and transactions.

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## ***Audit approach – Greater Sudbury Telecommunications Inc.***

Some of the more significant procedures performed were:

### **Controls testing**

- Review and approval of invoices after they are matched to shipping documents and purchase orders; and
- Review and approval of purchase orders.

### **Substantive testing**

- Vouching revenue to supporting documents on a sample basis;
- Vouching expenses to supporting documents on a sample basis;
- Confirm accounts receivable on a sample basis;
- Vouching addition and disposals to capital assets on a sample basis; and
- Test significant intercompany balances and transactions.

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## ***Risk analysis - Overview***

We have identified the following risks based on discussions with management, our knowledge of the business and current developments in the utility industry and economy:

- Rate regulation impacts; and
- Purchase accounting for the acquisition of the Company's rental property.

In addition, Canadian generally accepted auditing standards (GAAS) require us to consider management override of controls and the risk of fraud in revenue recognitions as significant risks for our audit.

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## ***Risk analysis – Rate regulation impacts***

Greater Sudbury Hydro Inc. is regulated by the Ontario Energy Board. Regulatory decisions and changes in the regulatory environment may impact business, operational and financial results.

Our audit approach consisted of the following:

- Gaining an understanding of the regulatory process and management's controls over that process;
- Reviewing the correspondence with the Regulator to support the recognition of the regulatory assets and liabilities;
- Assessing the recoverability of the regulatory assets and completeness of regulatory liabilities; and
- Performing substantive testing to gain comfort over the accuracy of the balances.

No exceptions were noted in the execution of our audit procedures.

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## ***Risk analysis – Purchase accounting for rental property***

During 2012, the Company acquired a rental property. Accounting standards require that all assets and liabilities acquired in a business acquisition be recorded at fair value. Determining the fair value of land, building and intangible assets acquired involves a significant amount of judgment.

Our planned audit approach consisted of:

- obtaining and reviewing the purchase agreement;
- assessing the reasonability of the valuation work performed by management and management's expert with assistance from our internal valuations experts; and
- assessing any impacts of the transaction on the Company's payments in lieu of taxes.

Based on the results of our testing, we agree with management's allocation.

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## ***Risk analysis – Purchase accounting for rental property (cont'd)***

### **Valuation of goodwill**

Under Canadian GAAP, management is required to test goodwill for impairment annually, including the year of acquisition.

We performed audit procedures over the impairment analysis prepared by management and have accepted that there is no impairment of the goodwill at the consolidated level for fiscal 2012.

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## ***Risk analysis – Management override of controls***

Under Canadian GAAS, management override of controls is an assumed risk for all companies.

We addressed this risk by performing the following:

- The use of computer-assisted audit techniques to test significant manual journal entries;
- Reviewing management's assumptions when making significant estimates;
- Reviewing significant inter-company transactions; and
- Completing our audit procedures with professional skepticism and incorporating unpredictability into our audit procedures.

No exceptions were noted in the execution of our audit procedures.

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## ***Risk analysis – Revenue recognition***

Under Canadian GAAS, there is a rebuttable presumption that the risk of fraud in revenue recognition is a significant risk for all companies. At Greater Sudbury Utilities Inc., recorded revenue incorporates broad estimates, which have a significant impact on the financial statements.

We addressed this risk by performing the following:

- Testing controls over the revenue process;
- Review of management analysis and performing independent analysis;
- Testing unbilled revenue estimates;
- Confirming a sample of customer accounts; and
- Agreeing a sample of recorded to the payments received.

No exceptions were noted in the execution of our audit procedures.



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## ***Fraud risk***

During our audit, we performed the following to address fraud risk:

- Inquired of management and the Audit Committee regarding any known, suspected or attempted fraud;
- Performed disaggregated analytical procedures primarily over revenue; and
- Performed procedures to address management override of controls.

No fraud involving senior management, employees with a significant role in internal control or that would cause a material misstatement of the financial statements, came to our attention as a result of our audit procedures.

## ***Audit findings – Overall***

As a result of our audit, we detected no unadjusted differences that impacted the net income of Greater Sudbury Utilities Inc. (consolidated), and Greater Sudbury Hydro Inc.

As a result of audit procedures, the following are unadjusted items noted that didn't impact net income:

	Overstatement (Understatement)					
	Assets		Liabilities		Equity	Net Income
	Current	Long Term	Current	Long Term		
Held cheque not reclassified to accounts payable	86,382	-	(86,382)	-	-	-
Current portion of customer deposits classified as long term	-	-	(60,000)	60,000	-	-
Debit balances within accounts payable not reclassified to accounts receivables	91,806	-	(91,806)	-	-	-
	<b>178,188</b>	-	<b>(238,188)</b>	<b>60,000</b>	-	-

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## ***Audit findings – Overall (cont'd)***

No unadjusted items were noted in the audit of Greater Sudbury Telecommunications Inc.

Other items were identified during the execution of our audit procedures, which management adjusted for.

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## ***Audit findings – Accounting for employee future benefit obligation***

During the audit, we noted the following:

- The actuarial valuations related to the employee future benefits obligations are performed as of January 1 as opposed to December 31.

For the purpose of the audit, we accepted that the actuarial valuations are not materially different on these two dates but highlighted that the policy is not in accordance with Canadian GAAP.

- Actuarial gains and losses are recognized in the period in which they are calculated by the actuary.

The Company is currently not following the appropriate accounting treatment however, the amount of unamortized actuarial gains and losses is in excess of the minimum required and below the maximum allowed under GAAP. As such, we accept management's accounting treatment for the amortization of the actuarial gains or losses.

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# *Questions?*