

Presented To:	Audit Committee
Presented:	Tuesday, Jun 18, 2013
Report Date	Tuesday, Jun 11, 2013
Type:	Presentations

## For Information Only

### 2012 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 2012 year-end to the Audit Committee on June 18, 2013. 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 2012 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 Accountants, 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 will confirm that there are no material unadjusted financial statement misstatements. Management has reviewed and adjusted the misstatements identified by the auditors in the financial statements.

#### Signed By

**Report Prepared By**

Lorraine Laplante  
Co-ordinator of Accounting  
*Digitally Signed Jun 11, 13*

**Division Review**

Paddy Buchanan  
Manager of Accounting  
*Digitally Signed Jun 11, 13*

**Recommended by the Department**

Lorella Hayes  
Chief Financial Officer/Treasurer  
*Digitally Signed Jun 11, 13*

**Recommended by the C.A.O.**

Doug Nadorozny  
Chief Administrative Officer  
*Digitally Signed Jun 11, 13*

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.

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# *City of Greater Sudbury*

*Report to the  
Audit Committee  
for the year ended  
December 31, 2012*

*Prepared as of  
June 6, 2013*





June 6, 2013

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 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, 2012. 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 have issued the accompanying report to assist you in your review of the consolidated financial statements. It includes an update on the status of our work, as well as a discussion on the significant accounting and financial reporting issues 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 propose to review the key elements of this report at the upcoming meeting and discuss our key findings with the Audit Committee.

We would like to express our sincere thanks to 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 18, 2013. Should you have any questions or concerns prior to the Audit Committee meeting, please do not hesitate to contact me in advance.

Yours very truly,

**(Signed) "PricewaterhouseCoopers LLP"**

Michael Hawtin  
Partner  
Audit and Assurance Group

cc: Ms. Lorella Hayes, Chief Financial Officer / Treasurer

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*PricewaterhouseCoopers LLP  
Mississauga Executive Centre, One Robert Speck Parkway, Suite 1100, Mississauga, Ontario, Canada L4Z 3M3  
T: +1 905 949 7400, F: +1 416 814 3220, [www.pwc.com/ca](http://www.pwc.com/ca)*

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

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**Appendices**

- Appendix A: Draft auditor's report
- Appendix B: Draft management representation letter
- Appendix C: Independence letter
- Appendix D: Internal control recommendations

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 organization or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted, as the report has not been prepared for, and is not intended for, any other purpose. 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.

# 1. *Executive summary*

## a. Status of the audit

We have substantially completed our audit of the 2012 consolidated financial statements. Our auditor's report will be issued once we receive and have completed our audit work on the outstanding items noted below.

Our audit has been performed substantially in accordance with the plan and timeline previously communicated to you at the September 18, 2012 Audit Committee meeting.

The following items will need to be completed/received prior to the issuance of our opinion. We will provide an update on the status of these items at our upcoming meeting.

Outstanding items
i. Completion of subsequent event procedures up to the date of our auditor's report
ii. Receipt of signed management representation letter
iii. Approval of the financial statements by Council
iv. Three legal confirmations

## b. Key issues for discussion

Issue	Summary discussion	For further reference
Significant audit, accounting and financial reporting matters	<ul style="list-style-type: none"> <li>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"> <li>Significant estimates and areas of management judgment;</li> <li>Revenue recognition; and</li> <li>Management override of controls.</li> </ul> </li> </ul>	Section 2
Summary of unadjusted and adjusted misstatements	<ul style="list-style-type: none"> <li>There were no unadjusted misstatements and two adjusted misstatements as a result of our audit. Summary of adjusted items are itemized in Section 3.</li> <li>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.</li> </ul>	Section 3 and Appendix A
Internal control recommendations	<ul style="list-style-type: none"> <li>We issued a report last year summarizing our internal control observations and recommendations as they related to the 2011 audit. Of our 2011 recommendations, certain of them were remediated by management in 2012.</li> <li>An update on these internal control observations and any new internal control observations identified in the 2012 audit are reported in Appendix D.</li> </ul>	Appendix D

Issue	Summary discussion	For further reference
Independence	<ul style="list-style-type: none"><li>We confirm that we are independent of the City as at the date of this report, and our independence letter can be found in Appendix C.</li></ul>	Appendix C
Fraud	<ul style="list-style-type: none"><li>No instances of fraud were noted as part of our audit procedures.</li></ul>	
Management representations	<ul style="list-style-type: none"><li>Under Canadian Auditing Standards, we are required to inform you of the representations we are requesting from management. A copy of the draft management representation letter is included in Appendix B.</li></ul>	Appendix B

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

Preparation of the consolidated financial statements requires management 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.

Our comments and views included in this report should only be taken in the context of the consolidated financial statements as a whole and are not meant to express an opinion on any individual item or accounting estimate.

During the audit, we dealt with the following complex issues, areas of judgment and significant audit risks:

Item 1	Significant estimates and areas of management judgment
<b>Background information</b>	<p>There are a number of complex and significant accounting estimates that require management judgment in preparing the City's consolidated accounts at December 31, 2012.</p> <p>Significant provisions and estimates include:</p> <ul style="list-style-type: none"> <li>a) provision for property tax appeals;</li> <li>b) provision for accounts receivable;</li> <li>c) employee benefit obligations; and</li> <li>d) landfill closure and post-closure costs for active and inactive landfill sites.</li> </ul> <p>Management has processes and controls in place for formulating these estimates as summarized below:</p> <ul style="list-style-type: none"> <li>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.</li> <li>b) The provision for accounts receivable is based on management's review of individual account balances using historical collection and other relevant debtor information.</li> <li>c) 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.</li> <li>d) 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 calculating 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.</li> </ul>



Item 1	Significant estimates and areas of management judgment
<b>Our views</b>	<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 on the rate of successful appeals to assess the reasonability of the estimates used by management at year-end. We compared management's "at-risk" rate used to calculate the provision to the average rate as calculated from the historical arbitration information for the past six years and found them to be comparable.</p> <p>b) For provisions related to accounts receivable, we examined management's analysis and aging of accounts receivables at year-end and have no matters to report.</p> <p>c) 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"> <li>• Tested the participant data provided to the actuary by comparing the data to source documents maintained by the City's payroll department;</li> <li>• 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 plans; and</li> <li>• 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.</li> </ul> <p>We have no matters to report as a result of completing these audit procedures.</p> <p>d) 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 have no matters to report as a result of completing these audit procedures.</p>

Item 2	Revenue recognition
<b>Background information</b>	<p>The City has several significant revenue streams from the following sources:</p> <ul style="list-style-type: none"> <li>• Property taxation;</li> <li>• Government transfers;</li> <li>• User charges for water, waste water, licensing fees and fees for other programs/ services; and</li> <li>• Fines and penalties.</li> </ul> <p>The City has established revenue recognition accounting policies in accordance with the Public Sector GAAP. Revenue recognition policies refer to those policies management has put in place to ensure revenue is recorded in the consolidated financial statements accurately and completely and in the correct accounting period.</p>
<b>Our views</b>	<p>Through our meetings with management, we gained an understanding of the processes and controls in place surrounding revenue recognition. As part of these meetings, we also reviewed and assessed the appropriateness of the accounting policies adopted by the City for recognizing revenue and determined whether the accounting policies are in accordance with generally accepted accounting principles.</p> <p>We performed a variety of audit procedures comprising confirmation of amounts with third parties for property taxation and government transfers. In addition, we performed other tests of detail for all significant revenue streams by agreeing amounts recorded in the general ledger to supporting documentation from third parties.</p> <p>Management advised us that they are currently pursuing collection of amounts owing from certain customers for water and waste water consumption in prior years. At the date of writing, the City is in the early stages of collection and thus no amounts have been accrued for in the financial statements related to this matter.</p> <p>Based on our audit work performed, we have no matters to report with respect to revenue recognition.</p>

Item 3	Management override of controls
<b>Background information</b>	<p>Canadian auditing standards require auditors to plan and perform the audit to obtain reasonable assurance that the consolidated 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 maintaining a code of conduct (as set out in the employee handbook), 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>
<b>Our views</b>	<p>During our audit, we executed the following procedures in order to fulfill our responsibilities:</p> <ul style="list-style-type: none"> <li>• Inquired of management, auditor general and legal offices and others related to any knowledge of fraud or suspected fraud;</li> <li>• Performed test of details primarily over revenue, including consideration of unusual or unexpected relationships;</li> <li>• Incorporated an element of unpredictability in the selection of the nature, timing and extent of our audit procedures;</li> <li>• Performed additional required procedures to address the risk of management's override of controls, including: <ul style="list-style-type: none"> <li>◦ examined journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud;</li> <li>◦ reviewed accounting estimates for biases that could result in material misstatement due to fraud; and</li> <li>◦ evaluated the business rationale of significant unusual transactions.</li> </ul> </li> </ul> <p>As a result of completing these procedures we did not encounter any instances of fraud.</p>

### 3. Summary of unadjusted and adjusted misstatements

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

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

We have two adjusted items and no unadjusted item to report as a result of completing our audit.

The adjusted items are summarized below.

(all amounts in thousands)		Statement of Financial Position		
Description	Statement of Operations Surplus over/ (under) stated	Assets (over)/ under stated	Liabilities over/ (under) stated	Opening accumulated surplus over/(under) stated
1. To adjust the investment and accounts payable balances for investment transactions with a 'trade date' prior to year-end but were 'unsettled' at December 31, 2012. These transactions were not recorded by management at year-end but should be recorded in accordance with the investment recognition principles in Public Sector GAAP as the trade date was prior to December 31, 2012.	-	2,200	(2,200)	-
2. To adjust for the overstatement of interest income and interest expense as a result of inter-departmental loans not eliminated on the consolidation of the City's accounts. No net impact on statement of operations noted.	734 (734)	-	-	-
<b>Total adjusted misstatements</b>	-	<b>2,200</b>	<b>(2,200)</b>	-

## 4. *Other required communications*

Canadian Generally Accepted Auditing Standards (GAAS) requires 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, we summarize these required communications as they apply to you:

Matter to be communicated	PwC's response
Management's representations	<ul style="list-style-type: none"> <li>Under Canadian GAAS, we are required to inform you of the representations we are requesting from management. A copy of the draft management representation letter is included in Appendix B.</li> </ul>
Significant deficiencies in internal control	<ul style="list-style-type: none"> <li>Canadian GAAS require us to communicate to the Audit Committee internal control weaknesses identified as part of our audit that are considered to be significant deficiencies.</li> <li>A significant deficiency is defined as an internal control deficiency that we consider merits the attention of the Audit Committee.</li> <li>See Appendix D of this report for our internal control recommendations that we would like to bring to the Audit Committee's attention.</li> </ul>
Significant difficulties or disagreements that occurred during the audit	<ul style="list-style-type: none"> <li>No difficulties or disagreements occurred while performing our audit that requires the attention of the Audit Committee.</li> </ul>
Fraud and illegal acts	<ul style="list-style-type: none"> <li>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.</li> </ul>

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## ***5. Internal control recommendations***

The purpose of our audit was to enable us to express an opinion on the consolidated financial statements.

We considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting.

Accordingly, we have submitted for management comments those observations and recommendations designed to help the City improve its system of internal control and achieve operational efficiencies.

We issued a report last year summarizing our internal control observations and recommendations as they related to the 2011 audit. Of our 2011 recommendations, certain of them were remediated by management in 2012 with the remainder expected to be remediated in 2013.

An update on these internal control observations and any new internal control observations identified in the 2012 audit are reported in Appendix D.

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## ***6. 2012 audit fees***

Our fees are in accordance with our response to the City's Request for Proposal dated October 18, 2011 covering the three year contract period for the years ended December 31, 2011 through to 2013. The fee for the 2012 audit of the City's consolidated financial statements is \$87,100.

## ***7. Upcoming changes to accounting standards***

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. Government transfers**

A revised Section PS 3410 was issued in February 2011 and is effective for fiscal years beginning on or after April 1, 2012. The new standard may be applied prospectively or retroactively. The objective of this project was to provide additional guidance and clarification to Section PS 3410, Government Transfers and to address application and interpretation issues raised by the government community.

An organization will need to consider the impact of the revised standard on:

- The appropriate accounting for multi-year funding provided by governments to outside organizations;
- When the transfer has been authorized;
- The degree to which stipulations imposed by a transferring government create a liability that must be recognized by the recipient government; and
- Timing of revenue recognition for capital transfers.

### **b. Liability for contaminated sites**

Section PS 3260, Liability for Contaminated Sites is effective for periods beginning on or after April 1, 2014, although earlier adoption is encouraged. This standard provides specific guidance on how an organization accounts for a liability associated with the remediation of a contaminated site. It may be adopted prospectively or retroactively.

The main features are:

- A liability for remediation of a contaminated site is recognized when contamination exceeds an existing environmental standard, the organization is either directly responsible or accepts responsibility for the contamination, the organization expects that future economic benefits will be given up and can make a reasonable estimate of the amount of the liability.
- The liability is measured at the organization's best estimate of the amount required to remediate the contaminated site. When cash flows to settle the liability are expected to occur over several years then a discounted cash flow technique is usually the best method to estimate the liability.
- Enhanced disclosures over remediation liabilities are required.

### **c. Financial instruments and financial statement presentation**

Section PS 3450, Financial Instruments is already effective for government organizations (from April 1, 2012) and will be effective for governments for periods beginning on or after April 15, 2015. 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) and Section PS 2601, Foreign Currency Translation (replacing PS 2600). These new standards require presentation of a new primary statement – the statement of remeasurement gains and losses – reporting various unrealized gains and losses and may also change the accounting for long-term foreign currency monetary items.



The government transfers and financial instruments standards will be applicable for the City in the 2013 fiscal year. Management has not yet concluded on the impact of the standards to the City's 2013 financial statements. We will work with management to assess the impact as part of the 2013 audit.

## d. Other projects

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

- *Related Parties* – In September 2012, PSAB issued an exposure draft proposing a new PSA Handbook Section for Related Party Transactions. The exposure draft included guidance on the identification of related parties as well as the recognition and measurement of related party transactions. The Board has considered responses to the exposure draft and will be issuing a re-exposure draft with revised guidance to address concerns over key management personnel and measurement of related party transactions. The re-exposure draft is expected in June 2013 with a view to a final standard by the end of 2013. Our audit national public sector leader is the chair of the PSAB task force on this project.
- *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 proposes 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 is expected in early 2014.
- *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). The first step in this project is a statement of principles that will define the essential characteristics of assets, contingent assets and contractual rights, provide recognition and derecognition criteria for assets and contingent assets, provide guidance on the measurement of assets and contingent assets (including impairments) and consider disclosure requirements. A draft statement of principles is expected in 2013.
- *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. PSAB is currently working on a statement of principles, expected to be issued before the end of 2013.
- *Asset Retirement Obligations* – This project will introduce guidance on accounting for asset retirement obligations into the PSA Handbook. The project is in early stages with a statement of principles expected before the end of 2013. A partner from our National Office sits on the PSAB task force for this project.

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## ***Appendix A: Draft auditor's report***



June 25, 2013

## **Independent Auditor's Report**

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

We have audited the accompanying consolidated financial statements of City of Greater Sudbury, which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated statement 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*

*Mississauga Executive Centre, One Robert Speck Parkway, Suite 1100, Mississauga, Ontario, Canada L4Z 3M3  
T: +1 905 949 7400, F: +1 416 814 3220, [www.pwc.com/ca](http://www.pwc.com/ca)*

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of City of Greater Sudbury as at December 31, 2012 and the results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

**Other matters**

The accompanying financial statements schedules as at and for the year ended December 31, 2012 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 City of Greater Sudbury.

**Chartered Accountants, Licensed Public Accountants**

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## ***Appendix B: Draft management representation letter***

[Client Letterhead]

[Date]

PricewaterhouseCoopers LLP  
PwC Tower  
18 York Street, Suite 2600  
Toronto ON M5J 0B2

Attention: Mr. Michael Hawtin

Dear Sirs

We are providing this letter in connection with your audit of the consolidated financial statements of City of Greater Sudbury (the City) as of December 31, 2012 and for the year then ended (the financial statements) for the purpose of expressing an opinion as to whether such financial statements present fairly, in all material respects, the financial position, the results of operations and the cash flows in accordance with Canadian public sector accounting standards.

#### **Management's responsibilities**

We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 8, 2012 and addendums dated March 28, 2013. In particular, we confirm to you that:

- we are responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards;
- we are responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 for reporting financial information in accordance with 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 financial statements**

The financial statements include all disclosures necessary for fair presentation in accordance with 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 an operations 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 and presentation of the financial statements is appropriate in our particular circumstances to present fairly in all material respects its financial position, results of operations and cash flows in accordance with Canadian public sector accounting standards.

### **Internal controls over financial reporting**

We have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the City, including our 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 financial statements for external purposes in accordance with Canadian public sector accounting standards.

We have disclosed to you all deficiencies in the design or operation of disclosure controls and procedures and internal control over financial reporting that we are aware as of December 31, 2012.

### **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;
  - 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 June 11, 2013 and Audit Committee on May 7, 2013.
- 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 financial statements.

We are not aware of any illegal or possibly illegal acts committed by the City's employees acting on the City's behalf.

**Accounting estimates and fair value measurements**

Significant assumptions used by us 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 our 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 The Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook Section PS 2130 - Measurement Uncertainty, have been appropriately disclosed.

**Related parties**

We confirm the completeness of information provided to you regarding the identification of related parties as defined by CAS 550 - Related Parties. We also confirm the completeness of information provided to you regarding the nature of our relationships with and transactions involving those entities.

The list of related parties attached to this letter as Appendix A, 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. There are no liens or encumbrances on the City's assets and no assets are 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 statement of financial position 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, 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 statement of financial position 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.

The adjusted misstatements identified during your audit and summarized in the attached table (Appendix B) have been approved by us and adjusted in the financial statements. There are no unadjusted misstatements identified during your audit.

**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 consolidated financial statements at December 31, 2012.

**Restricted assets and revenues**

All assets and revenues subject to restrictions are disclosed in the consolidated 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 is considered to be fully collectible. All receivables were free from hypothecation or assignment as security for advances to the City.

Receivables recorded in the consolidated financial statements represent bona fide claims against debtors for sales or other charges arising on or before the statement of financial position 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.

**Loans receivable**

Loans receivable are not to be repaid through future appropriations, nor do they contain forgivable conditions and so have been accounted for as financial assets, in accordance with PS 3050, Loans Receivable.

We have reviewed loans receivable for collectability, risk of loss and expected forgiveness, and made appropriate valuation allowances or write offs thereon if necessary, in accordance with PS 3050, Loans Receivable.

**Inventory**

Provision has been made to reduce excess or obsolete inventories 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 consolidated 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 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 consolidated financial statements as at December 31, 2012, 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, 2012.

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 PS 3250 - Retirement Benefits and PS 3255 - Post-employment Benefits, Compensated Absences and Termination Benefits. In particular:

- a) The significant accounting policies that the City has adopted in applying PS 3250 and PS 3255 are accurately and completely disclosed in the notes to the consolidated 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 consolidated financial statements, in accordance with 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 year's practices (except as disclosed in the consolidated financial statements).

#### **Environmental matters**

There are no liabilities or contingencies arising from environmental matters that have not already been disclosed to you.

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

All commitments related to environmental matters have been measured and disclosed, as appropriate in the consolidated financial statements.

#### **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 consolidated 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 which 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 PS 2700, Segment Disclosures, in identifying segments, management has considered the definition of a segment and other factors, including:

- a) the objectives of disclosing financial information by segment;
- b) the expectations of members of the community and their elected or appointed representatives regarding the key activities and accountabilities of the government;
- c) the qualitative characteristics of financial reporting as set out in PS 1000, Financial Statement Concepts;
- d) the homogeneous nature of the activities, service delivery, or recipients of the services;
- e) whether the activities relate to the achievement of common outcomes or services as reflected in government performance reports and plans;
- f) whether discrete financial information is reported or available; and
- g) 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 consolidated 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.

### **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 PS 3200, Liabilities.

### **Disclosure**

The major kinds of transfers recognized have all been disclosed in the consolidated financial statements as well as the nature and terms of liabilities arising from government transfers received.

**Events after 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**

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Doug Nadorozny, Chief Administration Officer

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Lorella Hayes, Chief Financial Officer/Treasurer

DRAFT

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## ***Appendix C: Independence letter***



June 6, 2013

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 City of Greater Sudbury (the City) for the year ended December 31, 2012.

Canadian generally accepted auditing standards require that we communicate at least annually with you regarding all relationships between the company, 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 the Institute of Chartered Accountants of Ontario 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 7, 2012, 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 7, 2012 to June 6, 2013.

We hereby confirm that we are independent with respect to the City within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of June 6, 2013.

*PricewaterhouseCoopers LLP*

*Mississauga Executive Centre, One Robert Speck Parkway, Suite 1100, Mississauga, Ontario, Canada L4Z 3M3  
T: +1 905 949 7400, F: +1 416 814 3220, [www.pwc.com/ca](http://www.pwc.com/ca)*





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 18, 2013.

Yours very truly,

**(Signed) “PricewaterhouseCoopers LLP”**

**Chartered Accountants, Licensed Public Accountants**

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## ***Appendix D: Internal control recommendations***

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# ***Internal Control Recommendations***

## **City of Greater Sudbury**

*Year ended  
December 31, 2012*





June 6, 2013

Ms. Lorella Hayes  
Chief Financial Officer /Treasurer  
City of Greater Sudbury  
200 Brady Street  
Sudbury ON P3A 5P3

Dear Ms. Hayes:

**Management Letter  
2012 Audit of City of Greater Sudbury**

We have substantially completed our audit examination of the consolidated financial statements of 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, 2012. During the course of our work, we noted several areas where we believe that controls and procedures could be improved and accordingly, we enclose a memorandum of recommendations designed to address these matters. We summarize these observations and recommendations in the appendix attached to this letter.

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 and we trust you will find the recommendations in this letter helpful in achieving this objective.

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.

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*PricewaterhouseCoopers LLP  
Mississauga Executive Centre, One Robert Speck Parkway, Suite 1100, Mississauga, Ontario, Canada L4Z 3M3  
T: +1 905 949 7400, F: +1 416 814 3220, [www.pwc.com/ca](http://www.pwc.com/ca)*



We would like to take this opportunity to thank the management and staff of 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,

**(Signed) “PricewaterhouseCoopers LLP”**

Michael Hawtin  
Partner  
Audit and Assurance Group

Encl.

# Contents

The following tables summarize the status of the 11 Information Technology Internal Control Recommendations (ICR) reported in 2011 with their status based on our observations in 2012. For ICRs which were not remediated in 2012, we have summarized the progress made by management. The only production server in the scope of the 2011 audit was PeopleSoft Financials (PS FIN). In 2012, PeopleSoft Human Resource (PS HR) was added to the scope of the audit. We have included our observations on PS HR as an extension of the findings on PS FIN in 2011 as the observations are consistent under both production servers.

## ICR remediated

Information Technology Internal Control Recommendations	Status Update
<b>High Risk</b>	
1. Application Password setting	Remediated
2. PS application security (PS tools)	Remediated
<b>Low Risk</b>	
3. Network Security	Remediated

## ICR not yet remediated

Information Technology Internal Control Recommendations	Status Update
<b>High Risk</b>	
1. User termination	Remediation in progress starting in 2013
2. Access to new users	Remediation in progress
3. Access to production servers	Remediation in progress
4. Local server password setting	Substantially remediated in 2013
5. Use of generic super user access	Substantially remediated in 2013
6. Change management process	Remediation in progress
<b>Medium Risk</b>	
7. Audit logging at the local server (Operating System) level	PS FIN was remediated in 2013. Remediation for PS HR which was identified during the 2012 audit is in progress.
<b>Low Risk</b>	
8. Formal policies and procedures re: logical security, change management and IT operations processes.	Remediation in progress

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## ***High Risk***

### **1) User termination in PS FIN and PS HR levels**

#### ***Observation***

It was noted during our examination of the employee termination process that there is no defined procedure to inform the Administrators to remove terminated employees.

In addition PwC noted the following exceptions in 11 of our 15 samples selected:

- For 1 terminated employee, PwC noted that both the PS FIN and Network accounts were still active as of date of our review;
- For 3 terminated employees, PwC noted that the account is still active in PS FIN only as of date of our review, however the Network account was disabled;
- For 3 terminated employees, PwC noted that the account is still active in PS HR only as of date of our review, however the Network account was disabled;
- For 11 terminated employees, PwC was unable to evidence timely removal of the access from the systems.

#### ***Impact***

There is a risk that unauthorized employees can gain access to PS FIN and PS HR.

#### ***Recommendation***

We recommend management establish a formal process to have terminated employees' access disabled on a timely basis. In addition we also recommend management track and log all changes to user access.

Further, we suggest management perform a full review of users' access rights on a periodic basis to ensure that user rights are commensurate with their responsibilities.

#### ***Remediation observed in 2012***

This internal control observation has not yet been remediated at the time of testing.

#### ***Management's response***

Staff have removed access from the employees identified. Management will reinforce the controls to remove access for terminated users on a timely basis. In February 2013, Finance implemented an end user system access policy for PS FIN.

---

**2) Access to new users at PS FIN and PS HR levels*****Observation***

It was noted during our examination of the process to grant access to new users that for 4 of our 40 samples selected, the procedures followed were not in compliance with the City's processes and procedures for granting access to new users. The work order for the requests was missing.

***Impact***

There is a risk that users are granted inappropriate access which is not commensurate with his or her responsibility.

***Recommendation***

We recommend management to reinforce the process of requesting and granting user access to PS FIN and PS HR in order to ensure that all access requests are duly logged, tracked and authorized and that the access request clearly defines the responsibility to be assigned to the user.

We also recommend management perform a full review of users' access rights on a periodic basis to ensure that users' current rights are commensurate with their responsibilities.

***Remediation observed in 2012***

Management has appropriately limited the security administrator role to authorized employees.

***Management's response***

Management will reinforce the controls for granting new user access to applications and to ensure that evidence of approval of request is retained. In February 2013 Finance implemented an end user system access policy for PS FIN.



### 3) Access to production data servers

#### **Observation**

It was noted during our examination of super user access to the local PS FIN and PS HR production servers, database and application levels, that the following users have inappropriate access:

- The DBAs (Database Administrators) have full access to the local production server as administrator, and have super user access to both PeopleSoft applications as SysAdmin (System Administrator) and are also the database administrators.
- There is no monitoring of the super user activities at the database levels to ensure that no unauthorized activities are performed.

#### **Impact**

There is a risk that unauthorized changes to application program and data is undetected due to the lack of monitoring.

Moreover, there is a risk that the super users do not follow the change management process to ensure segregation of role and duties as they have full access to all data and functionality with the system.

#### **Recommendation**

We recommend management consider establishing a segregated environment and role within the IT department and operation that segregates duties between Developers & DBAs in the information technology environment.

In addition we recommend that management establish monitoring procedures of the super users' activities at the database levels.

#### **Remediation observed in 2012**

Management has initiated a process during the year to monitor DBA access to production environment through specialized software (Foglight). We will test the remediation of this control as part of our audit in 2013.

#### **Management's response**

Due to the limited number of IT staff, segregation of duties is not a viable option.

The job description for database administrators (DBA) includes a number of additional duties related to systems administration. Our current process allows the City to have a DBA on site at all times with the duties to address any issues with PS and other systems. Changing to a segregated set of duties without hiring additional staff would result in an additional risk for the City to keep the systems functioning during absences, vacations, training, etc. by only having one staff member able to complete specific tasks.

The IT division will continue to review what options exist to improve audit and monitoring of those activities and possibly implementing a DBA / management peer review method for mitigating those risks without adversely affecting our ability to support ongoing operations.

---

#### 4) Local server password setting

**Observation**

It was noted during our examination that the PS servers are not attached to the domain and the password parameters that are being used to authenticate user at the server levels are setup at the local server level. We further noted the following issues during our examination of local password parameters for the servers running PS FIN and HR:

- Enforce password history - not defined
- Password Length = 0
- Minimum password age = 0 days.
- Password is not required to meet complexity, which means that a user can have the password to be the same as the user name or use simple password.
- The minimum password length is set to 0, which is not considered as strong and can be compromised easily;
- Account lockout = 0 which means that account lockout set to unlimited.

**Impact**

The lack of effective password controls increases the likelihood that user accounts are susceptible to being compromised. This can result in unauthorized access to key data, system settings and utilities.

**Recommendation**

We recommend management review their password settings in order to enforce complex password settings to authenticate users.

**Remediation observed in 2012**

Management has enforced the local server password settings in 2013. We will test the remediation of this control as part of our audit in 2013.

**Management's response**

Access to the local server is firewalled to only allow connections from the DBAs' PCs. In addition, we have since enforced the noted password parameters at the server as recommended. There are some automated services that will be impacted by this change and will need to be reset in accordance with the new parameters. This is a low risk of these services failing if not reset in the configured number of days. IT will add these service resets to their routine maintenance tasks.

---

**5) Use of generic super user access*****Observation***

It was noted during our examination that the City's DBAs are using a generic super user ID "CGS" to access the production environment.

***Impact***

Due to the lack of monitoring of the use of generic IDs, there is a risk that users can process unauthorized transactions.

***Recommendation***

We recommend management consider enforcing more restricted policies and monitoring controls related to the use of generic accounts.

***Remediation observed in 2012***

Management has initiated a process to monitor CGS account access to production environment through the use of specialized software (FogLight). We will test the remediation of this control as part of our audit in 2013.

***Management's response***

Some tasks require the use of the CGS account (e.g. server administration). The CGS account is only used by the DBAs when required to perform their job duties. All other access by DBAs is done via their own user ID.

Further to this, IT has created an audit logging process for DBAs using this account. Logins under the account are tracked through FogLight. The logs generated by FogLight are matched with an audit log kept by DBAs which is also matched against current work orders. These audit logs will be reviewed on a periodic basis by IT.

---

## **6) Change management process**

### ***Observation***

We noted the following issues during our examination of the PS FIN and PS HR change management process in 2012:

- There is no formal process in place to log all incidents / support calls processed by the PS FIN and PS HR applications support team. We were not able to determine the incidents that were fixed at the PS FIN application support team. Only those incidents that are escalated to either the DBA or through Oracle.com are logged and tracked.
- There is no segregation of duties between the developer, UAT (User Acceptance Testing) and promoters to production. PwC noted that for 9 changes out of the sample of 40, the developer and migrator of the change were the same people.
- There is no formal review and approval prior the implementation (which includes review for approval of testing, approval to promote and confirmation of the approved version prior to being moved to production by only authorized personnel) of all changes that were implemented. At present there is an informal process in place whereby the business/IT user who is the UAT approver can authorize the change migration along with the UAT approval. We were not able to evidence UAT for 2 changes out of a sample of 40. Due to the nature of informal process, 1 UAT approval was obtained verbally while for the other change the evidence of UAT was not retained.

### ***Impact***

There is a risk of unauthorized access to the production environment.

### ***Recommendation***

We recommend management review their change management process to ensure that all changes are tracked, and UAT and management approval is obtained before changes are promoted to production.

### ***Remediation observed in 2012***

We have seen some improvement on logging and tracking the changes, except for changes performed by the PS FIN application support team.

### ***Management's response***

Due to the limited number of IT staff, segregation of duties is not a viable option.

Finance and IT will review our processes to see where possible enhancements could be made. IT will improve the audit log for UAT approvals to have a documented and formal process.

---

## ***Medium Risk***

### **7) Audit logging at the PS HR local server (operating systems) level.**

#### ***Observation:***

It was noted during our examination that the City has limited “Audit Logging” defined at the local server (Operating Systems) level for the production servers running PS HR applications and database. The following audit login settings are not enabled at the local server level:

- Audit account logon events - failures
- Audit account management - success, failures
- Audit login events - failure
- Audit privilege use - success

Further, we note that there is no formal process in place to review audit logs on periodic basis.

#### ***Impact***

There is a risk that inappropriate user activity at the local server levels and database levels would not be detected.

#### ***Recommendation***

We recommend management consider strengthening and enforcing audit logging policies to mitigate the risk associated with people gaining inappropriate access to the system.

#### ***Remediation observed in 2012***

Our prior year observation related to PS FIN servers was remediated by management in 2012. Our current observation relates to the PS HR servers and was remediated by management in 2013. We will test the remediation relating to the PS HR servers in 2013 as part of our audit next year.

#### ***Management's response***

During the audit, we discovered the PS HR servers did not have those parameters enforced and IT has since enforced them. IT will review our processes and formalize those review processes.

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## ***Low Risk***

### **8) Formal policies and procedures re: logical security, change management and IT operations processes**

#### ***Observation***

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.

#### ***Remediation observed in 2012***

Management response below summarizes the progress in 2012 and the plan for 2013.

#### ***Management's response***

The IT division has developed these policies, which are in draft form and currently being reviewed. The City's legal division is reviewing the proposed policies. Once completed, the policies will be submitted to Human Resources, and then the Senior Management Team for review and approval.

