

For Information Only

2011 Audit Findings Report

Presented To:	Audit Committee
Presented:	Tuesday, Jun 19, 2012
Report Date	Friday, Jun 08, 2012
Type:	Presentations

Recommendation

For information only.

BACKGROUND

For entities with public accountability, auditing standards now require auditors to communicate specific information to an Audit Committee. The City's auditors will be presenting their Audit Findings Report with respect to the 2011 year-end to the Audit Committee on June 19, 2012. 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 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 2011 Financial Statements.

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 they have reviewed uncorrected financial statement misstatements. Management has reviewed the misstatements and determined that individually and in aggregate they are not material to the financial statements.

Signed By

Report Prepared By

Lorraine Laplante
Co-ordinator of Accounting
Digitally Signed Jun 8, 12

Division Review

Paddy Buchanan
Manager of Accounting
Digitally Signed Jun 8, 12

Recommended by the Department

Lorella Hayes
Chief Financial Officer/Treasurer
Digitally Signed Jun 8, 12

Recommended by the C.A.O.

Doug Nadorozny
Chief Administrative Officer
Digitally Signed Jun 12, 12

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 will comment on any material weaknesses that have been identified as part of the audit.

The City of Greater Sudbury

*Report to the Audit
Committee for the
year ended
December 31, 2011*

*Prepared as of
June 7, 2012*





June 7, 2012

Members of the Audit Committee
City of Greater Sudbury

Dear Members of the Audit Committee:

We have substantially completed our audit of the consolidated financial statements of the City of Greater Sudbury (the City) prepared in accordance with Canadian generally acceptable accounting standards as established by the Public Sector Accounting Board (Public Sector GAAP) for the year ended December 31, 2011. 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 the management and the staff of the City who have assisted us in carrying out our work and we look forward to our meeting on June 19, 2012. 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) "PricewaterhouseCoopersLLP"

Cathy Russell
Partner
Audit and Assurance Group

cc: Ms. Lorella Hayes, Chief Financial Officer

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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 business 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 2011 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 February 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. Responses to our legal confirmation letters (3) from external legal counsel
ii. Completion of subsequent event procedures up to the date of our audit opinion
iii. Receipt of signed management representation letter
iv. Approval of the financial statements by the Council

b. Key issues for discussion

Issue	Summary discussion	For further reference
Significant audit, accounting and financial reporting matters	<ul style="list-style-type: none"> Section 2 of our report discusses the areas that we focused on in conducting our audit and significant accounting matters which we believe should be brought to your attention. These areas comprise the following: <ul style="list-style-type: none"> i. Landfill closure and post-closure costs for active and inactive landfill sites ii. Tangible capital assets (TCA) and inventory adjustments iii. Significant estimates and areas of management judgment iv. Revenue recognition v. Management override of controls 	Section 2
Summary of unadjusted and adjusted misstatements	<ul style="list-style-type: none"> There are unadjusted misstatements of \$600,000 and out-of-period adjustments of \$1,135,000 impacting annual surplus in the amount of \$1,735,000 as compared to overall materiality of \$4.8 million. Summary of unadjusted and adjusted items are itemized in Section 3. There are no adjusted misstatements as a result of our audit. In our opinion, the financial statements, taken as a whole, are free of material misstatement. 	Section 3
Internal control recommendations	<ul style="list-style-type: none"> While completing our audit procedures we identified certain internal control recommendations for management's consideration which are itemized in Appendix D. 	Appendix D
Independence	<ul style="list-style-type: none"> We confirm that we are independent of the City as at June 7, 2012, and our independence letter can be found in Appendix C. 	Appendix C

Issue	Summary discussion	For further reference
Fraud	<ul style="list-style-type: none">No instances of fraud were noted as part of our audit procedures.	
Management representations	<ul style="list-style-type: none">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.	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	Landfill closure and post-closure costs for active and inactive landfill sites
Background information	<p>The City is required under the Ontario Environmental Protection Act for closure and post closure care of solid waste landfill sites.</p> <p>The City is required to account for this obligation under the requirements of PS 3270, Solid Waste Landfill Closure and Post-Closure Liability (PS 3270).</p> <p>Management, through the use of internal and external specialists, determined the landfill liabilities by estimating the costs to be incurred during the closure and post-closure period. At December 31, 2011, in accordance with PS 3270, this liability was discounted using an average borrowing rate of 5% (2010 – 5%) less an inflation rate of 1.87% (2010 – 1.90%).</p> <p>As part of the year-end accounting close process, management identified an error in the calculation of the liability associated with the City's Sudbury landfill site. During the year-end review of the external specialists report, management noted that the total estimated capacity and useful life of the active Sudbury landfill site was calculated incorrectly in the prior year resulting in an understatement of the estimated capacity and useful life at this site which had the effect of overstating the landfill liability.</p> <p>To quantify the impact of this change, management engaged their external specialist to recalculate the liability using the revised estimated capacity calculations at January 1, 2010, December 31, 2010 and December 31, 2011. As a result, it was determined that the landfill liability was overstated by \$1,895,000 at January 1, 2010 and environmental expenses were overstated by \$395,000 for the year-end December 31, 2010.</p> <p>The change has been accounted for as a correction of an error under the requirements of PS 2120, Accounting Changes (PS 2120). Accordingly, this change has been accounted for on a retroactive basis, with prior period restatement.</p> <p>The restatement has been disclosed in note 2 of the consolidated financial statements.</p> <p>In addition, we understand that management communicated this correction to the prior auditors on May 22, 2012.</p>

Item 1	Landfill closure and post-closure costs for active and inactive landfill sites
Our views	<p>Our audit approach involved the reliance on the work of the City's external environmental specialists for their calculation of the landfill liability and expense for the year.</p> <p>As part of our audit procedures, we examined the report issued by the City's external specialists, held discussions with management and the external specialists, reviewed the data for reasonableness and recalculated the liability using the updated estimates. In addition, we assessed the qualifications of the City's external environmental specialist and confirmed their independence with the City.</p> <p>We note that there are significant estimates that require judgment in calculating the landfill liability at year-end. These include estimates of the expenditures for closure and post-closure care of the landfill sites, site capacity and remaining useful lives, post closure care period, as well as inflation and discount rates.</p> <p>We rely on the City's external specialists to determine the assumptions related to expenditures for closure and post-closure care of the landfill sites, site capacity and remaining useful lives and post closure care period. As part of our audit procedures we independently validated the assumptions for inflation and discount rates. Based on completing these procedures, we noted that the City's discount rate of 5% is high and believe a discount rate of 4.75% is more reflective of the City's average cost of borrowing at December 31, 2011. As a result, we have taken this difference to our summary of unadjusted items as an understatement of the landfill liability of approximately \$600,000.</p> <p>Further, we reviewed management's disclosure of the restatement in the consolidated financial statements and noted that the disclosures are in accordance with PS 2120.</p>

Item 2	Tangible Capital Assets (TCA) and inventory adjustments
Background information	<p>i) Tangible capital assets</p> <p>During management's year-end close process, including the reconciliation of TCA at December 31, 2011, management identified several errors in the recognition and measurement of TCA related primarily to the accounting for subdivision assets on the adoption of PS 3150, Tangible Capital Assets in 2009.</p> <p>The net impact of the adjustments was an increase to TCA of approximately \$200,000 which management recorded as a recovery in the statement of operations in the current year.</p> <p>The significant adjustments comprised an increase in TCA of approximately \$4,300,000 to value previously unrecorded land under donated subdivision parkland, ponds and subdivision roads and for roads and water and waste water linear assets. This adjustment was offset by a decrease to TCA of approximately \$4,100,000 to correct for calculation errors and incorrect estimates made in determining the value of donated subdivision roads at December 31, 2009.</p> <p>We understand management has undertaken a thorough and comprehensive review of its TCA donated subdivision assets in light of these adjustments including reconciling TCA with records in the City's legal and engineering departments.</p> <p>ii) Inventory</p> <p>During the year management noted that the City was expensing all inventory for transit and fleet. As part of the year-end close process, the City performed a count of all transit and fleet inventory on hand which totaled \$935,000 at December 31, 2011.</p> <p>As a result, management recorded an adjustment to increase Other non-financial assets in the consolidated statement of financial position with a corresponding credit to the transportation service expense in the consolidated statement of operations for the inventory that was on hand at December 31, 2011.</p>
Our views	<p>i) Tangible capital assets</p> <p>We noted that management's adjustments are supported by detailed calculations, analysis and real estate appraisals, where appropriate. As part of our year-end audit procedures related to TCA, we performed sample testing of management's TCA adjustments and have no matters to report.</p> <p>This adjustment represents an out-of-period adjustment of \$200,000 since the City has corrected for prior period errors in the recognition and measurement of TCA as a recovery in the current year statement of operations.</p> <p>ii) Inventory</p> <p>We noted that management's adjustment is supported by inventory count sheets and detailed calculations to measure the inventory on hand at year-end.</p> <p>This adjustment represents an out-of-period adjustment since the City has corrected for prior period errors in the accounting for inventory as a recovery in the current year statement of operations. The out-of-period adjustment is estimated to be \$935,000 on the basis that the City has a consistent level of transit and fleet inventory on hand year over year.</p>

Item 3	Significant estimates and areas of management judgment
Background information	<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, 2011.</p> <p>Significant provisions and estimates include:</p> <ul style="list-style-type: none"> a) provision for property tax appeals; b) provision for accounts receivable; and c) employee benefit obligations. <p>Management has processes and controls in place for formulating these estimates as summarized below:</p> <ul style="list-style-type: none"> a) The provision for property tax appeals is based on management's estimates of losses relating to successful appeals by taxpayers. The provision is based on historical arbitration experience. b) The provision for accounts receivable is based on management's review of individual account balances using historical collection and other relevant debtor information. 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 actuaries 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.

Item 3	Significant estimates and areas of management judgment
Our views	<p>We held discussions with management responsible for establishing these estimates to understand the key assumptions as well as validate and benchmark these judgments against our own 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 made 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 actuaries. In accordance with generally accepted auditing standards, we relied on the actuary for their calculation of the employee benefit liabilities and expense for the year. Our audit procedures mainly consist of reviewing the reasonableness of the data and assumptions used by the actuary and do not include a re-performance of the actuarial calculations. Accordingly, we performed the following audit procedures when relying on the work of specialists:</p> <ul style="list-style-type: none"> • Tested the participant data provided to the actuary by comparing the data to source documents maintained by the City's payroll department; • Tested that the significant actuarial assumptions (i.e. discount rates, medical cost increases, etc.) are within a reasonable range and consistent with the provisions in the City's plans; and • Tested that the City is in compliance with the appropriate accounting principles for the calculation, presentation and disclosure of the employee benefit obligations within the consolidated financial statements of the City. <p>We have no matters to report as a result of completing these audit procedures.</p>

Item 4	Revenue recognition
Background information	<p>The City has several significant revenue streams from the following sources:</p> <ul style="list-style-type: none"> • property taxation; • government transfers; • User charges for water, waste water, licensing fees and fees for other programs/services; and • Fines and penalties. <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>
Our views	<p>Through our meetings with management, we gained an understanding of the processes and controls in place surrounding revenue recognition and tested certain internal controls, where appropriate, to support our audit approach. As part of these meetings, we also reviewed and assessed the appropriateness of the accounting policies adopted by the City for recognizing revenue and ensured 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 substantive analytical procedures and / or other tests of detail for all significant revenue streams.</p> <p>Based on our audit work performed, we have no matters to report with respect to revenue recognition.</p>

Item 5	Management override of controls
Background information	<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>

Item 5	Management override of controls
<p>Our views</p>	<p>During our audit, we executed the following procedures in order to fulfill our responsibilities:</p> <ul style="list-style-type: none"> • inquired of management, auditor general and legal offices and others related to any knowledge of fraud or suspected fraud; • performed disaggregated analytical procedures, primarily over revenue, including consideration of unusual or unexpected relationships; • incorporated an element of unpredictability in the selection of the nature, timing and extent of our audit procedures; • performed additional required procedures to address the risk of management's override of controls, including: <ul style="list-style-type: none"> ◦ examined journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud; ◦ reviewed accounting estimates for biases that could result in material misstatement due to fraud, (including a retrospective review of significant prior years' estimates); and ◦ evaluated the business rationale of significant unusual transactions. <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 GAAS, 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 no adjusted items and one unadjusted item to report as a result of completing our audit. The unadjusted difference is summarized below.

In addition, we noted an unadjusted disclosure-related item as the consolidated statement of operations and accumulated surplus and statement of changes in net financial assets do not present a comparison of the results for the accounting period with those originally planned. In accordance with public sector accounting disclosure requirements, planned results should be presented for the same scope of activities and on a basis consistent with that used for actual results.

We are also required to report out-of-period adjusted misstatements. Two out-of-period adjustments were identified by management, totalling \$1,135,000, related to the accounting for TCA and inventory as itemized in Section 2 (Item 2) of our report.

<i>(all amounts in thousands)</i>	Statement of Operations	Statement of Financial Position		
Description	Surplus Over/(Under) Stated	Assets (Over)/Under Stated	Liabilities Over/(Under) Stated	Opening Accumulated Surplus Over/(Under) Stated
1. Understatement of landfill liability and environmental services expense to account for the reduction in the discount rate to 4.75% as compared to the rate used by the City of 5% at year-end.	600		(600)	
Total Unadjusted Misstatements	600	-	(600)	

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"> 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.
Significant deficiencies in internal control	<ul style="list-style-type: none"> Recent changes to 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. A significant deficiency is defined as an internal control deficiency that we consider merits the attention of the Audit Committee. See Appendix D of this report for our internal control recommendations that we would like to bring to the Audit Committee's attention.
Significant difficulties or disagreements that occurred during the audit	<ul style="list-style-type: none"> No difficulties or disagreements occurred while performing our audit that requires the attention of the Audit Committee.
Fraud and illegal acts	<ul style="list-style-type: none"> 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.
Update to our audit planning risk assessment	<ul style="list-style-type: none"> As part of completing our year-end audit procedures, we have updated our originally planned risk assessment as presented to you in our audit plan dated February 8, 2012 (and as presented to you on February 21, 2012) to refine our significant risk assessment for revenue recognition. We have assessed the risk associated with revenue from government transfers as significant as revenue is recognized based on specific contracts and arrangements with governmental organizations and is subject to management judgment with respect to the timing of revenue recognition. We have assessed the remaining revenue streams, comprising property taxation, user charges, fines and penalties, investment income and earnings from GBE's, as not significant as there is minimal management judgment and estimation involved in recognizing revenue.
Inclusion of "Other matter" paragraph in audit opinion	<ul style="list-style-type: none"> See Appendix A for our draft auditor's report including the "Other matter" paragraph, which discloses the change in auditor's for 2011 and the prior year restatement as discussed above.

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. See Appendix D for a copy of our management letter.

6. 2011 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 2011 audit of the City's consolidated financial statements is \$85,000.

Appendix A: Draft auditor's report

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of the City of Greater Sudbury, which comprise the consolidated statement of financial position as at December 31, 2011 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the City of Greater Sudbury as at December 31, 2011 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

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements which explain that certain comparative information for the year ended and as at December 31, 2010 has been restated. The consolidated financial statements as at December 31, 2010 and for the year then ended, prior to restatement of the comparative information, were audited by other auditors who expressed an unmodified opinion on those consolidated financial statements on June 29, 2011.

The accompanying financial statements schedules as at and for the year ended December 31, 2011 are presented as supplementary information only and are not a required part of the basic consolidated financial statements. The information in these schedules has been subject to audit procedures only to the extent necessary to express an opinion on the consolidated financial statements of the City of Greater Sudbury.

DRAFT

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
[Date]

Appendix B: Draft management representation letter

DRAFT

[Date]

Ms. Cathy Russell, Partner
PricewaterhouseCoopers LLP
Chartered Accountants
PwC Tower
18 York Street, Suite 2600
Toronto, ON Canada
M5J 0B2

Dear Ms Russell:

We are providing this letter in connection with your audit of the consolidated financial statements of the City of Greater Sudbury (the City) as of December 31, 2011 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 dated February 8, 2012. 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, 2011.

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 May 29, 2012 and Audit Committee on May 22, 2012.
- 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.

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.

Adjusted and unadjusted items are summarized in your report to the Audit Committee dated June 7, 2012.

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, 2010.

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 period 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, except as hereunder stated.

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 period.

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.

We have undertaken a thorough and comprehensive review of our TCA in light of the adjustments to land and road donated subdivision assets and believe these assets are appropriately recognized and measured in the financial statements.

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, 2011, 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 pension plan amendments since December 31, 2011, the date of the last actuarial valuation, have been identified to you.

The actuarial valuation dated December 31, 2011 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 pension and other post-retirement benefits are appropriate in the circumstances.
- b) The City does not plan to make frequent amendments to the pension or other 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 pension plan expense and the estimated actuarial present value of accrued pension benefits and value of pension fund assets where latest actuarial valuation for accounting purposes is not at the balance sheet date.

The City's actuaries have been provided with all information required to complete their valuation as at December 31, 2011 and where applicable, their extrapolation to December 31, 2011.

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 pension 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 period were consistent with prior period 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 the auditor.

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.

Changes in accounting policies related specifically to segment reporting that have a material effect on segment information have been disclosed. Prior period segment information presented for comparative purposes has been restated.

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 period 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.

Restatement of prior period's balances

The restatement made to correct a material misstatement in the prior period's financial statements that affect the comparative information has been appropriately accounted for and disclosed in accordance with the requirements of Canadian public sector accounting standards. We have additionally communicated this correction to the prior auditors on May 22, 2012.

Yours truly,

The City of Greater Sudbury

Doug Nadorozny, Chief Administration Officer

Lorella Hayes, Chief Financial Officer / Treasurer

Appendix C: Independence letter



June 7, 2012

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

Dear Members of the Audit Committee:

We have been engaged to audit the consolidated financial statements of The City of Greater Sudbury (the City) for the year ended December 31, 2011.

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 provincial institute 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 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 October 17, 2011 (the date of our response to the City's request for proposal CPS 11-17) to June 7, 2012.

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 7, 2012.

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 19, 2012.

Yours very truly,

(Signed) "PricewaterhouseCoopersLLP"

Chartered Accountants, Licensed Public Accountants

*PricewaterhouseCoopers LLP, Chartered Accountants
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Appendix D: Internal control recommendations



June 7, 2011

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

Dear Ms. Hayes:

Management Letter
2011 Audit of City of Greater Sudbury

We have substantially completed our audit examination of the consolidated financial statements of the City of Greater Sudbury. Our audit was directed at providing the basis for our opinion on the consolidated financial statements for the year ended December 31, 2011. 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.

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

Yours truly,

(Signed) "PricewaterhouseCoopersLLP"

Cathy Russell
Partner
Audit and Assurance Group

Encl.

PricewaterhouseCoopers LLP, Chartered Accountants
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
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Table of Contents

Information Technology Internal Control Recommendations	Management response – Status at June 7, 2012
High Risk	
1. User termination in PeopleSoft Financials	Some items completed; Some items in progress
2. Access to new users at PeopleSoft Financial level	Some items completed; Some items in progress
3. Access to production servers	Due to resource limitations in the IT department, recommendation cannot be implemented; however mitigating controls are being investigated
4. PeopleSoft password setting	In progress
5. Local server password setting	In progress
6. Use of generic super user access	Completed
7. PeopleSoft application security (PeopleSoft tools)	Completed
8. Change management process	Due to resource limitations in the IT department, some recommendations cannot be implemented; however mitigating controls are being investigated
Medium Risk	
9. Audit logging at the local server, database and application levels	In progress
Low Risk	
10. Formal policies and procedures re: logical security, change management and IT operations processes	In progress
11. Network security	This has been reviewed by IT and due to technical issues it is not possible to implement at this time



HIGH RISK

1) User termination in PeopleSoft Financials

Observation:

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

In addition PwC noted the following exceptions in 5 of our 25 samples selected:

For 3 terminated employees, PwC noted that the account is still active as of date of our review.

For 2 terminated employees, PwC noted that the deactivation of the PeopleSoft access was later than the termination date by more than 1 week (23 days and 59 days, respectively)

Impact:

There is a risk that unauthorized employees can gain access to PeopleSoft Financials.

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 the user access.

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

Management Response:

Staff has removed access from the employees identified. Finance has revised their process to obtain information directly from Human Resources to inactivate terminated employees in a timely manner. Finance will create a form to be completed by the departmental managers for hiring/termination of employees.

2) Access to new users at PeopleSoft Financials level

Observation:

It was noted during our examination of the process to grant user access to PeopleSoft Financials that the work order created to request user access does not mention the responsibility to be assigned to the new user.

We noted that 2 of our 25 samples selected were not in-compliance with the City's processes and procedures for granting access to new users. In one instance, PwC noted that there was no Work Order for the request as management indicated that the request was made verbally. In the other instance, PwC noted that the new user requested her own access.

It was also noted during our examination of user access that two individuals have the ability to grant access to users in PeopleSoft but did not log or track the access that they had granted during the year. Consequently, we were not able to determine the number of users that they provided access to during the year.

Impact:

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



Recommendation:

We recommend management revisit the process of requesting and granting user access to PeopleSoft Financials 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.

Further, we suggest that management limit the PeopleSoft Financials security administrator role to only authorized employees.

Management Response:

The ability to grant access to users in PeopleSoft has been removed from all staff external to the Financial Information Systems section of Finance subsequent to the review.

Staff will review the existing process to address the items noted above including the creation of a form addressing access requirements. With the implementation of the Finance upgrade staff will review the security matrix and establish a review process.

3) Access to production data servers

Observation:

It was noted during our examination of super user access to the local PeopleSoft Financial production server, database and application levels, that the following users have inappropriate access:

- all Program Analyst (developers) have full access to the production server FMPROD89;
- the Database Administrators (DBA) have full access to the local production server as administrator, and has super user access to the PeopleSoft Application as SYSADMIN on top of being the database administrator.
- 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 objects and data goes unnoticed 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 everything.

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 and remove developers' access in the production environment

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



Management Response:

Only the DBAs have access to log into the PeopleSoft servers at the operating system level. Developers have accounts on the servers but are restricted only to drive mappings that are required for their job functions (e.g. access to logs and trace files to troubleshoot issues) and can't log into the operating system directly. Developers do not have full access to the production server.

Due to the limited number of IT staff, segregation of duties is not a viable option. The IT division will review what options exist to improve audit and monitoring of those activities.

4) PeopleSoft password setting

Observation:

We noted the following issues during our review of password parameters at the PeopleSoft Application:

- Password Length - Not defined
- Password expiry - set to never expires
- Password complexity not defined, which means that a user can have the password to be the same as the user name or use simple password.
- Account lockout threshold not defined
- Allow Password to Match UserID - is set to YES
- Number of Passwords to Retain is not defined.

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 and enforce more complex password settings to authenticate users.

Management Response:

IT is in the process of implementing password controls as part of the PeopleSoft upgrade from version 8.9 to 9.1.

5) Local server password setting

Observation:

We noted during our examination that the PeopleSoft server is 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:

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 the password setting in order to enforce complex password settings to authenticate users.

Management Response:

IT is in the process of implementing password controls as part of the PeopleSoft upgrade from version 8.9 to 9.1.

6) Use of generic super user access

Observation:

One of the City's DBA's is 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.

Management Response:

Some tasks require the use of the CGS account (e.g. server administration). IT has changed procedures so that 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.

7) PeopleSoft application security (PeopleTools)

Observation:

We noted in our examination of PeopleSoft application security that 26 users have access to key Security Setup menus in Production which should be limited to IT personnel only.

Impact:

Such access privileges provide opportunity to circumvent the restricted access controls designed in the application which can lead to financial reporting implications.

Recommendation:

Access to key security setup menus should be restricted to authorized IT personnel only.

Management Response:

This has been corrected subsequent to this review.

8) Change management process

Observation:



We noted the following issues during our examination of the PeopleSoft Financial change management process:

- There is no formal process in place to log all incidents / support calls processed by the PeopleSoft Enterprise Resource Planning Finance support team. We were not able to determine the incidents that were fixed at the L1 level of support. 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 and promoters to production. All developers have full access to the production environment (application, database and server).
- The change control fields, CHGCTL_USE_HISTORY and CHGCTL_USE_LOCKING are not enabled in PeopleSoft. Further we noted that no other methods to control changes are used (i.e., a third party tool, audit reports, restricted access).
- There is no formal review and approval prior to the implementation of all changes that were implemented and no evidence of user acceptance testing (UAT). We were not able to obtain evidence of approval and UAT for the 5 changes selected out of a population of 44.

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.

Management 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 can improve the audit log for UAT approvals to have a documented process.

MEDIUM RISK

9) Audit logging at the Local Server, database and application levels

Observation:

The City has limited "Audit Logging" defined at the local server level. The following audit login settings with PeopleSoft 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

We note that only default auditing is enabled in PeopleSoft. Further, we note that there is no formal process in place to review PeopleSoft 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.

Management Response:

In PeopleSoft the system is enabled to record login events (successful and failed) and is auditing account management success and failures. At the operating system level and the database level we have username, workstation and/or IP address and date and time.

The City is also in the process of upgrading PeopleSoft from version 8.9 to 9.1 which has enhanced auditing capability.

LOW RISK

10) 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.

Management Response:

The IT division has developed these policies, which are in draft form and currently being reviewed. Final approval is anticipated for Fall 2012.

11) Network security

Observation:

During our examination of the setup of the PeopleSoft Financials production server, we noted the following:

- the server is being operated as a standalone server using a workgroup;
- it is located in the internal LAN but not attached to the domain;
- the logical security (password, account lockout and audit logging) were inadequate;
- any user who has a valid PeopleSoft Financial login ID can login the applications without being authenticated at the network levels provided the IP address is a valid one.

As a result of the above, the server is exposed due to a lack of adequate logical security. As the server is not attached to the domain, the server is exposed to a higher risk as group policies which are defined at the domain level are not being applied.



Impact:

There is a risk that the server is subject to a single point of failure and a user can login locally as the password setting is weak and does not require network authentication.

Recommendation:

We recommend management consider securing the server through the network domain.

Management Response:

The City is not setup to use Active Directory. We have experimented with joining our PeopleSoft servers to an Active Directory domain but there have been technical issues which prevent us from doing so at this time.