

The City of Greater Sudbury

*Summary of our Report to the Audit
Committee*

*Year ended
December 31, 2011*

1. Status of the audit

We have substantially completed our audit.

The following items will need to be completed/received prior to the issuance of our opinion.

Outstanding items:

Completion of subsequent event procedures up to the date of our audit opinion

Receipt of signed management representation letter

Approval of the financial statements by Council

2. Significant audit, accounting and financial reporting matters

Landfill closure and post-closure costs for active and inactive landfill sites

Background:

- Management identified that the total estimated capacity and useful life of the active Sudbury landfill site was calculated incorrectly in the prior year.
- 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.
- The change has been accounted for as a correction of an error on a retroactive basis, with prior period restatement.

PwC Views:

- We examined the report issued by the City's specialist, reviewed the input data for reasonableness and recalculated the liability and have no significant matters to report.
- We reviewed the disclosure of the restatement in the financial statements.

2. Significant audit, accounting and financial reporting matters

Tangible Capital Assets (TCA) and inventory adjustments

i) Tangible capital assets

Background:

- Management identified several errors in the recognition and measurement of TCA related to contributed assets.
- The net impact of the adjustments was an increase to TCA of approximately \$200,000.

PwC Views:

- Management's adjustments are supported by detailed calculations, analysis and real estate appraisals, where appropriate.
- We performed sample testing of management's TCA adjustments and have no matters to report.
- This adjustment represents an out-of-period adjustment of \$200,000.

2. Significant audit, accounting and financial reporting matters

Tangible Capital Assets (TCA) and inventory adjustments (continued)

ii) Inventory

Background:

- Management noted that the City was expensing all inventory for transit and fleet.
- The City performed a count of all transit and fleet inventory on hand which totalled \$935,000 at December 31, 2011.
- An adjustment was recorded to recognize the inventory at year-end with a corresponding credit to the transportation service expense.

PwC Views:

- Management's adjustment is supported by inventory count sheets and detailed calculations to measure the inventory on hand at year-end.
- This adjustment represents an out-of-period adjustment.

2. Significant audit, accounting and financial reporting matters

Significant estimates and areas of management judgment

Background:

- Significant provisions and estimates include:
 - a) provision for property tax appeals;
 - b) provision for accounts receivable; and
 - c) employee benefit obligations.

PwC Views:

- We validated and benchmarked these estimates against our own expectations and have no matters to report .

2. Significant audit, accounting and financial reporting matters

Revenue recognition

Background:

- The City has several significant revenue streams and has established revenue recognition accounting policies in accordance with the Public Sector GAAP.

PwC Views:

- We performed a variety of audit procedures including testing of certain key controls, substantive analytical procedures and tests of detail for all significant revenue streams.
- We have no matters to report with respect to revenue recognition.

2. Significant audit, accounting and financial reporting matters

Management override of controls

Background:

- The City has developed policies and procedures to ensure appropriate segregation of duties to mitigate the risk of fraud and management override of controls.

PwC Views:

- To address this risk we executed various procedures including:
 - inquiries with management, auditor general and legal offices;
 - Performed disaggregated analytical procedures over revenue,;
 - examined journal entries and other adjustments; and
 - reviewed accounting estimates for management bias.
- As a result of completing these procedures we did not encounter any instances of fraud.

3. Summary of unadjusted and adjusted misstatements

Unadjusted misstatements:

Description	Surplus over (under) stated	Assets (over) under stated	Liabilities over (under) stated
Landfill liability	\$600,000		(\$600,000)

Out of period adjustments:

Description	Surplus over (under) stated	Opening accumulated surplus (under) over stated
Inventory adjustment	\$935,000	(\$935,000)
TCA adjustment	\$200,000	(\$200,000)

- There are no adjusted misstatements as a result of our audit.

4. *Other required communications*

- Summarized below are other required communications to the Audit Committee:

Matter to be communicated

PwC's response

Management's representations

- A copy of the draft management representation letter is included in our report.

Significant difficulties or disagreements that occurred during the audit

- We had no difficulties or disagreements

Fraud and illegal acts

- We are not aware of any instances of fraud.

4. Other required communications

Matter to be communicated

PwC's response

Inclusion of “Other matter” paragraph in audit opinion

- Refer to Appendix A of our report for our draft auditor's report

Independence of PwC

- We have included in our report our signed independence letter confirming our independence .

5. Internal controls

- Our testing of certain key controls was targeted primarily on those controls in the purchases, payables and payment and payroll processes.
- Our testing in these cycles included some of the following controls:
 - Review and approval of vendor invoices and cheque requisitions;
 - Review and approval of changes to payroll master data (i. new hires, terminations, rate changes) prior to payroll processing; and
 - Review and approval of employee time cards (where applicable) prior to payroll processing.

5. Internal controls

- Internal controls were also tested over information technology.
- Internal control recommendations were raised primarily related to information technology controls in the following areas:
 - Password settings;
 - Access and segregation of duties; and
 - Change management process.

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.

Thank-you!