

The City of Greater Sudbury

*Audit Plan for the year
ended December 31, 2011*

Prepared as at
February 8, 2012



February 8, 2012

Members of the Audit Committee
The City of Greater Sudbury
200 Brady Street
2nd Floor, Tom Davies Square
Box 5000, Stn A
Sudbury, Ontario P3A 5P3

Dear Members of the Audit Committee:

We are pleased to present our audit plan for the 2011 audit of the consolidated financial statements of The City of Greater Sudbury (the City) prepared in accordance with Canadian generally accepted accounting principles established by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants (Canadian GAAP).

This document summarizes our audit plan including our view on audit risks, the nature, extent and timing of our audit work as well as fees and the terms of our engagement.

We value your feedback and we hope that this document will facilitate two-way communication on the risks identified and our audit approach. We welcome any suggestions and observations you may have and look forward to discussing the contents of this audit plan with you at our upcoming meeting on February 21, 2012.

Yours very truly,

PricewaterhouseCoopers LLP

Cathy Russell
Partner
Audit and Assurance Group

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

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Appendix

Appendix A: Engagement letter

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.

1. Executive summary

We have prepared the attached document to provide you with the opportunity to review, comment on and approve our audit plan for the 2011 audit of the consolidated financial statements.

This audit plan includes the required communications between an auditor and Audit Committee as required by Canadian generally accepted auditing standards (Canadian GAAS).

Below, we highlight key areas for discussion to facilitate your review. We would be pleased to answer any questions you might have at our upcoming meeting.

	Discussion item	Summary	For further reference
a.	Client service team	<ul style="list-style-type: none"> Cathy Russell is your engagement leader. Michael Hawtin is your engagement senior manager. 	Page 3
b.	Service deliverables	<ul style="list-style-type: none"> The scope of our services consists of the audit of the consolidated financial statements for the year ended December 31, 2011. 	Page 4
c.	Timing	<ul style="list-style-type: none"> Audit planning: December 2011 – February 2012 Interim visit: March 2012 Year-end visit: April 2012 	Page 5
d.	Audit approach	<ul style="list-style-type: none"> Our audit approach will include a combination of reliance on selected controls and substantive tests of detail. Consistent with Canadian GAAS, we will also implement a level of unpredictability into our procedures each year. 	Page 7
e.	Risk analysis	<ul style="list-style-type: none"> The areas of significant audit focus are noted as follows: <ul style="list-style-type: none"> Revenue recognition; Significant accounting estimates; and Management override of controls. 	Pages 8-10
f.	Materiality	<ul style="list-style-type: none"> We have calculated materiality (based on the 2011 operating budget) and have determined a preliminary materiality of \$4.7 million. Unadjusted and adjusted items over \$235,000 will be reported to the Audit Committee on completion of our audit. 	Page 11

	Discussion item	Summary	For further reference
g.	Fraud risk	<ul style="list-style-type: none">• We are required to discuss fraud risk annually with the Audit Committee.• In planning our audit, we have considered the risk of fraud, management's processes for mitigating the risk, and the Audit Committee's oversight processes.	Page 12
h.	2011 audit fees	<ul style="list-style-type: none">• Our audit fee for the City for the 2011 year, as outlined in our response for proposal No. CPS11-17 dated October 18, 2011 (the RFP), is \$80,000.	Page 14

2. Your team

The key members of the City engagement team are as follows:

Name	Role	Phone number	Email address
Cathy Russell	Engagement leader	416 815 5291	<i>cathy.russell@ca.pwc.com</i>
Michael Hawtin	Engagement senior manager	905 949 7317	<i>michael.hawtin@ca.pwc.com</i>
Dib Dhar	Information Technology Specialist	416 815 5043	<i>dibyendu.dhar@ca.pwc.com</i>
Carol Devenny	Quality Review Partner	613 755 4366	<i>carol.devenny@ca.pwc.com</i>

We have also assigned a quality review partner, Carol Devenny, who is independent of the audit team and whose responsibilities include ensuring that we deliver a quality product. Carol is the leader of our public sector practice and has over 28 years of experience providing audit services to a wide range of government entities.

3. Scope of our services

a. Our audit objectives

As the City's auditor, our primary responsibility is to form and express an opinion on the City's consolidated financial statements as at December 31, 2011 and for the year then ended prepared in accordance with Canadian GAAP. The consolidated financial statements are prepared by management with the oversight of those charged with governance (Audit Committee). An audit of the consolidated financial statements does not relieve management or the Audit Committee of its responsibilities. We will conduct our audit in accordance with Canadian GAAS. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

In addition, we are committed to being a trusted advisor to management and to the Audit Committee. Where appropriate, we will discuss significant developments in public sector accounting and provide management our views and insights, and also advise management of other services we feel could be helpful - at all times staying within the realms of our independence rules.

b. Engagement terms

Our draft engagement letter dated February 8, 2012 sets out the terms and conditions for our engagement as the independent auditor of the City of Greater Sudbury for the years ended December 31, 2011 through to 2013. A copy of this letter has been included in Appendix A of our audit plan for your reference.

In addition, our engagement letter outlines our responsibilities as the auditor and the responsibilities of management.

4. When will we do the audit?

a. Audit timeline

Working with management, we have developed the following project timeline.

Audit planning	
Audit planning	December 2011 – February 2012
Presentation of audit plan to the Audit Committee	February 21, 2012
Audit	
Interim audit fieldwork – City	March 2012
Year-end audit fieldwork – City's related agencies and boards	March 2012
Year-end audit fieldwork - City	April 2012
Clearance meetings with management and PwC	May 2012
Year-end Audit Committee meeting and finalization of the consolidated financial statements ¹	June 19, 2012

¹ At the year-end Audit Committee meeting we will provide to the Audit Committee our draft audit opinion, key findings (particularly, regarding significant estimates, transactions, accounting policies and disclosures), any significant deficiencies identified in internal controls and also provide a confirmation of our independence.

b. Project management

A well-executed audit requires good project management from both the City and PwC.

Working with management, we have agreed upon the following process to ensure information is flowing and that issues are dealt with on a timely basis:

i. Issues meetings

- We will hold regular meetings with key management throughout the audit planning and year-end audit fieldwork to discuss potential issues affecting the City and to develop plans for the resolution of key accounting issues.
- We will share elements of our assessment of significant risks with management and the Audit Committee to avoid surprises and obtain your feedback (pages 8 to 11).
- We will maintain an ongoing register of matters that require further effort and will regularly monitor progress on these matters.

ii. Communications

- We will use the information gathered from our audit planning, along with our other knowledge of the City and public sector, to develop a detailed list of documents that we will need from the City to complete the audit. This document will list those responsible and the expected delivery dates agreed to by management.
- We have asked management to appoint an “Audit Champion” to be our key contact. This person is responsible for managing the flow of information and audit requests to ensure both of our organizations are being as efficient as possible and that the audit is not disruptive to the City.
- Lorraine Laplante, Coordinator of Accounting, has been selected by management as the City’s Audit Champion.
- We will hold periodic meetings with management during the audit to discuss the status of our audit procedures. As part of these meetings, we will provide a detailed list of outstanding items and will highlight any items that require more urgent attention and follow up. We will work closely with management to resolve outstanding audit information requests and issues in a timely manner and obtain agreement with management on additional audit services provided, if any, during the audit.
- Once we have completed our audit and have mailed our report, the results and findings of the audit will be discussed at the Audit Committee meeting.

iii. Continuous improvement

- After the audit, we will debrief with management and obtain feedback on how the audit went and what improvements can be made to the process. We will also solicit feedback from the Audit Committee. These improvements will be documented and reflected in next year’s audit plan.

5. How will we do the audit?

a. Our audit approach

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

- i. Gaining an understanding of the City - focusing on new developments and key business issues affecting the City as well as management's monitoring of controls and business processes. Our audit procedures will include tests of controls within the payroll, purchases/payables/payments, revenue and receivables, information technology, and certain other processes as well as substantive tests of significant account balances and transactions;
- ii. Identifying significant audit risks, sharing our perspectives, obtaining your feedback and ensuring our audit is tailored to these risks;
- iii. Making use of our network of internal employee benefits and information systems specialists, who will be integrated into our team to assist in our audit;
- iv. Using external specialists¹ to assist with obtaining sufficient and appropriate audit evidence over certain account balances and transactions. Specifically, we will rely on the following specialists:
 - External actuaries to provide actuarial calculations to account for the employee benefits (pension and other), accident claims and insurance related liabilities;
 - External specialists to provide estimates of future landfill closure and post-closure costs used to estimate the related liability; and
 - Municipal Property Assessment Corporation (MPAC) to provide the assessment of properties used in determining property taxation revenue for the year.
- v. Using well-reasoned professional judgment, especially, in areas that are subjective or require estimates; and
- vi. Leveraging reliance where possible on the City's internal controls, information technology and data systems and the Auditor General's office. Our approach will, therefore, include a mixture of key controls reliance, substantive analytics and detailed testing.

Our understanding of the organization also drives our assessment of materiality and the identification of audit risks. Throughout the audit, we scale our work based on the size of an account balance, its complexity and its impact on the consolidated financial statements.

¹ When we rely on others, we are required by our professional standards to perform certain audit procedures (i.e. evaluate their objectivity, professional qualifications and reputation, understand significant assumptions, perform tests over the data used and evaluate the specialists findings) and evaluate the results to determine if the specialists work can provide audit evidence.

b. Risk analysis

Significant risks are those risks of material misstatement that, in our judgment, require special audit consideration. We have identified the following significant audit risks and other risks, including business risks with a potential audit impact, as part of our planning process.

These risks were identified based on discussions with management, our knowledge of the City and current developments in the economy.

They are the key risks from our perspective. We request your input on the following significant risks and whether there are any other areas of concern that the Audit Committee has identified.

Risk	Management's response	Our audit approach
<p>Revenue recognition</p> <p>The City has several significant revenue streams from the following significant 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 accounting standards for the Public Sector.</p> <p>In addition, the City has processes, controls and other procedures in place to ensure that revenue is appropriately measured and recognized, including monitoring the activity within deferred revenue accounts and reserve funds during the year.</p>	<ul style="list-style-type: none"> • Obtain an understanding of management processes and internal controls surrounding revenue recognition and assess the accounting policies adopted by the City for recognizing revenue and ensure that this is in accordance with Canadian GAAP. • Perform substantive analytical procedures and tests of detail on significant revenue streams. • Our substantive procedures will include tests of detail and confirming revenue and other amounts with third party sources (property tax and government transfers). • Test the controls in place over management's review of deferred revenue and reserve accounts and perform detailed testing on the activity (i.e. amounts received and spent) during the year.

Risk	Management's response	Our audit approach
<p>Significant accounting estimates</p> <p>The preparation of the City's financial statements requires the use of accounting estimates that are subject to management judgment in the following significant areas:</p> <ul style="list-style-type: none"> • Employee benefits (pension and other); • Environmental liabilities (including closure and post-closure costs for active and inactive landfill sites); • Provisions related to property taxes; • Provisions for uncollectible receivables; and • Contingent liabilities. 	<p>Management has processes and controls in place for formulating these estimates.</p> <p>Where applicable, management has engaged external specialists to assist in the determination of significant accounting estimates.</p> <p>In particular, we understand the City has contracted external specialists to assist with the valuation of certain employee benefits and environmental liabilities.</p>	<ul style="list-style-type: none"> • Meet with non-financial management responsible for establishing these provisions to understand the key assumptions and validate and benchmark these estimates against our own expectations. Test management's calculations, supporting data and assumptions used in these calculations. • Incorporate internal specialists into our engagement team to assess the appropriateness of the methodology and accounting estimates applied. • Assess the competency and objectivity of specialists engaged by the entity. • Review management's assessment of the collectability of receivable balances and examine subsequent receipts after year-end and other evidence of collectability. • For employee benefit arrangements, we will assess whether any plan changes as a result of new or amended collective bargaining agreements or agreements with non-unionized employees have been appropriately considered in the actuarial valuations. We will also perform testing over the source data used in the employee benefit calculations.

Risk	Management's response	Our audit approach
Management override of controls	<p>Appropriate segregation of duties has been established in order to mitigate the risk of management override of controls.</p> <p>Controls over the review and approval of manual journal entries are in place.</p> <p>In addition, the City has policies and procedures in place to prevent and deter fraud.</p>	<ul style="list-style-type: none">• Assess the control environment and segregation of duties and access parameters established in Peoplesoft mitigating this risk.• Test significant and non-standard manual journal entries made during the year.• Introduce an element of unpredictability into our audit through our sample selections for audit testing.

c. Materiality

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

Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.

We have set our preliminary materiality for the audit as follows:

	Basis	Amount
Overall materiality ² :	1% of operating expenditures (budget) for the full year	\$4.7 million
Unadjusted and adjusted misstatements in excess of this amount will be reported to the Audit Committee	5% of overall materiality	\$235,000

² Our materiality calculation is based on the 2011 operating budget; should there be a significant change in actual results, we will communicate changes to the Audit Committee at year-end.

d. Discussion on fraud risk

Canadian GAAS require us to discuss fraud risk annually with the Audit Committee. We understand that part of your governance role is also to consider the fraud risks facing the City and the responses to those risks.

Question 1:

Required discussion	<ul style="list-style-type: none"> • Through our planning process, we have developed an understanding of your oversight processes including: <ul style="list-style-type: none"> ◦ Code of conduct (as set out in the employee handbook); ◦ Audit Committee (and other) charters; ◦ Presentations by management; ◦ Review of related party transactions; ◦ Consideration of tone at the top; and ◦ Auditor General Office. • Are there any new processes or changes to the above that we should be aware of?
Notes	

Question 2

Required discussion	<p>We are not aware of any fraud at the current time.</p> <p>We would like to ask whether you are aware of instances of actual, suspected or alleged fraud affecting the entity.</p>
Notes	

An auditor's responsibilities for detecting fraud

We are responsible for planning and performing the audit to obtain reasonable assurance that the consolidated financial statements are free of material misstatements, whether caused by error or fraud.

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.

During our audit, we will perform the following procedures in order to fulfill our responsibilities:

- inquiries of management, the Audit Committee and others related to any knowledge of fraud or suspected fraud;
- perform disaggregated analytical procedures, primarily over revenue and consider unusual or unexpected relationships identified in planning the audit;
- incorporate an element of unpredictability in the selection of the nature, timing and extent of our audit procedures;
- perform additional required procedures to address the risk of management's override of controls, including:
 - testing internal controls designed to prevent and detect fraud;
 - examine journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud;
 - review accounting estimates for biases that could result in material misstatement due to fraud, (including a retrospective review of significant prior years' estimates); and
 - evaluate the business rationale of significant unusual transactions.

We would be pleased to discuss any other procedures or suggestions the Audit Committee may have.

6. Where will we do the audit?

Consolidated audit process

Our engagement team is under the direction of Cathy Russell.

In this capacity, she is responsible for the overall quality of the delivery of our audit services, as well as the consistent application of our audit methodology.

As PwC has been engaged to perform separate stand-alone audits of the City's agencies and boards (such as the Greater Sudbury Utility Inc. and the Sudbury Housing Corporation), we will rely on the audit work completed by these PwC teams to assist in forming our opinion of the consolidated financial statements of the City.

We have taken the following steps to ensure the overall quality of the audit engagement:

- a. issued formal instructions to the local audit teams of the agencies and boards leveraging the work of these individual audits;
- b. arranged for continuous communication throughout our engagement team between the City and these separate local audit teams;
- c. arranged for debriefing conference calls with management and respective separate local audit teams to review results and findings of work performed; and
- d. planned adherence to engagement timelines in order to meet your reporting objectives.

7. Fees

In accordance with the RFP covering the three year contract period for the years ended December 31, 2011 through to 2013, our fees for the 2011 audit of the consolidated financial statements of the City are \$80,000.

8. New accounting standards

As part of our commitment to quality service, we now draw your attention to new and emerging accounting, auditing and regulatory developments together with their assessed impact on the City's financial reporting:

a. Introduction to Public Sector Accounting Standards

In June 2010 PSAB approved Section PS 2125, First-time Adoption by Government Organization, as a final standard and revised the introduction to Public Sector Accounting Standards to clarify which generally accepting accounting principles government organization should apply when preparing their own financial statements.

The main features are:

- Government business enterprises (GBEs) should adhere to the standards applicable to publicly accountable profit oriented enterprises (meaning the adoption of International Financial Reporting Standards (IFRS)) for fiscal periods beginning on or after January 1, 2011 (rate regulated GBE's – beginning on or after January 1, 2012). GBEs are essentially self-sustaining commercial organizations selling goods and services outside of the government and, in the normal course of operations, can operate with little or no funding from their government owner.
- Government business type organizations (GBTOs) are similar to GBEs except that the organization is dependent on government subsidies or may sell goods and services within the government. This type of public sector entity will be eliminated and GBTOs will now be classified as either government not-for-profit organizations (GNFPO's) or other government organizations (OGO's). OGO's would generally base their financial reporting on the Public Sector Handbook; however, where IFRS is more applicable for certain organizations, these organizations would adopt IFRS.
- A government organization applies Section 2125 to its first financial statements prepared in accordance with Public Sector Accounting Standards when transitioning from another basis of generally accepted accounting principles. The adoption of Public Sector Accounting Standards is to be accounted for by retroactive application with restatement of prior periods subject to the requirements in this Section which provide for certain exemptions from retroactive application. The standard is effective for years beginning on or after January 1, 2011.

Impact to the City:

The City's GBE's, Sudbury Airport Community Development Corporation (SACDC) and Sudbury Utilities Inc, are required to adopt IFRS in 2011 and 2012, respectively.

As part of our 2011 audit planning, we will work closely with the City to identify the accounting differences and assess the impact under IFRS for SACDC.

b. Government transfers

In December 2010 PSAB approved a final standard to replace existing Section PS 3410, Government Transfers. The revised Section PS 3410 was issued in February 2011 and is effective for fiscal years beginning on or after April 1, 2012. Prospective or retroactive application of the revised standard will be permitted.

The objective of this project was to provide additional guidance and clarification to Section PS 3410, Government Transfers, to address application and interpretation issues raised by the government community.

The major issues in the project include:

- Resolving the debate over the appropriate accounting for multi-year funding provided by governments to outside organizations;
- Clarifying the nature and the extent of the authorization required to be in place for a transfer to be recognized;
- Clarifying the degree to which stipulations imposed by a transferring government should impact the timing of recognition of the transfer by both the transferor and the recipient governments; and
- Addressing the appropriate accounting for capital transfers.

Impact to the City:

The most significant impact to the City will likely be around the accounting for grants received for tangible capital assets. There will likely be little opportunity to defer government grant transfers received and not spent unless they meet the definition of a liability.

c. Financial instruments and financial statement presentation

In March 2011 PSAB approved section PS 3450, Financial Instruments, and will be effective for periods beginning on or after April 1, 2012 for government organizations and April 15, 2015 for governments. The new 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 to be measured at fair value.

In March 2011 PSAB approved section PS 1201 which replaces section PS 1200, Financial Statement Presentation, and will be effective for periods beginning on or after April 1, 2012 for government organizations and April 15, 2015 for governments. The new Section includes a statement of remeasurement gains and losses which will report various unrealized gains and losses.

Impact to the City:

The measurement of the City's portfolio investments (equity instruments quoted in an active market) will likely be impacted upon adopting these new accounting standards in 2013. These portfolio investments, which are currently being recorded at cost will need to be recorded at fair value with the change in the fair value being recognized in the statement of remeasurement gains and losses.

d. Other projects

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

- Amalgamation and government restructuring - A project was approved in March 2009 to issue an accounting standard that addresses the definition and classification of amalgamation and restructuring activities; the recognition criteria and accounting treatment of various elements of the amalgamation and restructuring transaction; the measurement basis of assets and liabilities involved; and the disclosure requirements unique to amalgamation and restructuring. A statement of principles is expected to be approved in March 2012.
- Assets - Section PS 3200 addresses the basic concepts and key terms in the definition of liabilities with further guidance, examples and indicators. It also establishes the recognition and disclosure standards for liabilities. Similar standards on assets would be useful not only for financial statement preparers and auditors in application and interpretation of the definition of assets, but also for the development of future standards on specific assets. The objective of this project is to provide guidance relating to the key terms in the definition and essential characteristics of assets, define 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 provide guidance on the disclosure of assets, contingent assets and contractual rights. PSAB approved the project proposal in June 2009 and a statement of principles is expected to be approved in June 2012.
- Related Parties and Appropriations - PSAB approved a project proposal in September 2010 to issue a new accounting standard covering related party transactions and appropriations. The objectives of the project are to define related parties and appropriations in the context of government and government organizations; describe the disclosures required; and address recognition and disclosure appropriations. Our audit national public sector leader is the chair of this PSAB task force.

Impact to the City:

The City will need to monitor these projects for future impact on their own financial reporting.